

## DISCUSSION/ACTION ITEMS 2022-23

### Budget First Reading: Public Hearing – Turney

**Action to be taken:**                    **The Board will conduct a hearing to obtain public input on the 2022-23 Budget. Adoption of the budget is scheduled for the August 25, 2022 board meeting.**

**Notice of this hearing has been published twice in a paper of record as required by statute on July 22 and July 29, 2022.**

### **The Budget Process**

Each spring the budget process begins with the Board establishing broad parameters for budget development. (Adopted 4-7-2022) The Administration follows the Board's parameters and reinforces these parameters during actual budget development. These guidelines have been observed and incorporated into the 2022-23 Budget.

State revenue as a percentage of total revenue appears to have peaked in 2018-19 (71.4%) and will now comprise 65.85% of the District's operating revenue, a decrease of 1.25% over the prior fiscal year (67.1%). The State is now 5.55% 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 2023 levy authority of \$61,000,000. This was possible given the passage of HB 1590 which allowed the District to base its levy authority on 2019-20 enrollment or 2021-22, whichever is greater. The 2022-23 Budget has a 2023 calendar year levy of \$2,878.66 per student.

Due to continued enrollment decline the District had to reduce programs significantly, with a significant reduction in force of both certificated and classified staff that was

authorized by the Board on April 28<sup>th</sup>, 2022. The program reduction action rationale summary is provided as follows:

**Rationale for total 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 1,899 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 \$7.1M 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 \$34M. This includes \$8m in enrollment hold harmless funds received in May 2022. This is a decrease of \$8.3M or a 19.62% decrease in reserve balances. A total fund balance of \$34M would be 9.15% of expenditures, with a 6.24% unreserved balance (which complies with the Board Budget Parameters). However, this financial position is bolstered by one-time enrollment hold harmless funds and is not sustainable without program reductions to align with revenue expectations. The District was authorized to make reductions of \$11.38M for fiscal year 2022-23 as part of a two-year strategy to align resources to expenditures. The estimated ending fund balance amount for fiscal year 2022-23 is \$24M, a \$18.3M decrease from the 2019-20 beginning balance of \$42.3M (43.3% decrease).

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 65.85% of the funding for general operating costs, the federal government provides 3.97%, and 29.94% is generated through local fees and the Educational Programs/Operations Levy (EP&O).

There are 295 school districts in the State of Washington and 19 other Local Education Agencies that receive funding. Issaquah School District is ranked 203 out of 314 in terms of total revenue per student. The average district in 2020-21 received \$15,944 in revenue for each student while Issaquah School District received \$15,622 per student during the same fiscal period. This puts Issaquah School District at a revenue disadvantage of \$6.2 million per year when compared to the state average per student in 2020-21. When compared to King County districts, the Issaquah School District is ranked 14 of 18 in terms of per pupil revenues.

### 2020-21 Per Pupil Revenues: King County Districts

<b>District Name</b>	<b>Total Enrollment</b>	<b>Total Revenues</b>	<b>Total Revenues Per Pupil</b>
Seattle	52,961	1,011,204,091	19,093
Tukwila	2,679	49,458,599	18,464
Highline	18,427	325,085,751	17,641
Auburn	16,761	286,158,281	17,073
Renton	15,277	260,703,050	17,066
Bellevue	19,801	333,340,538	16,834
Federal Way	21,189	353,126,838	16,666
Shoreline	9,384	151,831,193	16,179
Northshore	22,897	369,152,357	16,123
Mercer Island	4,108	65,909,948	16,044
Vashon Island	1,477	23,662,838	16,022
Riverview	3,064	48,631,564	15,874
Kent	25,587	403,563,644	15,772
<b>Issaquah</b>	<b>20,020</b>	<b>312,739,776</b>	<b>15,622</b>
Enumclaw	4,063	63,102,493	15,532
Snoqualmie Valley	6,921	104,499,135	15,099
Tahoma	8,605	129,515,636	15,052
Lake Washington	30,904	461,434,869	14,931
<b>County Average</b>	<b>284,123</b>	<b>4,753,120,602</b>	<b>16,729</b>

### 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 1,250 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 19,000 students are provided in sixteen elementary schools, six middle schools, three comprehensive high schools, and a choice high school. 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 \$45.1 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 \$12.9 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 60 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 \$7.9M 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 \$13.5 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 54.5% of this obligation, leaving the other 45.5% 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 2022-23**

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.
- Maintaining an unassigned fund balance of 3-7% of the general fund budget.
- Maintain sufficient reserves for start-up operating costs associated with new schools.
- 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: 12.31%) for school districts. (Issaquah's admin expense is set for 9.12% in the 2022-23 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/rolledback.

#### **Major Budget Drivers for 2022-23:**

- State revenue increase of approximately **\$12 million**:
  - Salary and benefit allocations comprised of a 5.5% IPD (inflationary adjustment) - \$9.8M
  - Adjustment to the prototypical funding/allocation model - \$2.2M
- Program reductions of \$11.38M
- Local cost of IPD salary increase of \$6.25M
- Projected enrollment decline of 301 students - \$3.4M
- Estimated negotiated increases above IPD of \$5.6M
- Increase in local levy authority of \$5M
- Increase in non-employee related costs (insurance, fuel, commodities, general inflation) of \$3M
- Loss of Transportation funding of \$1.76M
- Draw down of reserve balances estimated at \$10m

**Summary:**

The 2022-23 budget was another difficult spending plan to put together given the continued need to reduce expenditures to match resource levels. Budget reductions are likely to continue in the 2023-24 budget due to current deficit spending in the 2022-23 budget. Ending fund balance for 2022-23 is estimated at \$24M, leaving an estimated unassigned fund balance of 3.55%, which is just above the minimum for Board compliance.

The District thanks the State for increased funding in the form of enrollment hold harmless and revisions to the prototypical funding model. Finally, the District extends its gratitude to the community for supporting the EP&O Levy, Capital Levy, and Transportation Levy in April of 2022.

**Conclusion:**

The administration certifies that 2022-23 proposed Budget meets all Board Executive Limitations and meets Board adopted budget parameters.

The final budget will be presented for adoption at the August 25<sup>th</sup> board meeting.

Martin Turney, Chief of Finance and Operations will be available for questions and a brief presentation.

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