

Advanced Notice
August 9, 2017

DISCUSSION/ACTION ITEMS

2017-18 Budget First Reading: **Public Hearing** – Kuper

Action to be taken: **The Board will conduct a hearing to obtain public input on the 2017-18 Budget. Adoption of the budget is scheduled for the August 23, 2017 board meeting.**

Notice of this hearing has been published twice in our paper of record as required by statute on July 14 and July 21, 2017.

The Budget Process

Each spring the budget process begins with the Board establishing broad parameters for budget development. (Adopted 1-25-2017) The Administration follows the Board's parameters and reinforces these parameters during actual budget development. These guidelines have been observed and incorporated into the 2017-18 Budget.

From 2009-10 to 2011-12 (3 fiscal years) the District has had cumulative reductions in state funding totaling nearly \$16 million. State funding as a percentage of District revenues has dropped from 68% in 2008-09 to 60.8% in 2012-13. The trend of declining state revenue subsided in 2012-13 and for budget years, 2013-14 through 2016-17, there was an actual increase in state revenue. State revenue has continued to grow in 2017-18 and will now comprise 64.2% of the District's operating revenue, an increase of 0.30% over the prior fiscal year (2016-17). The State is still 3.8% below the recent historical peak in state funding as a percentage of total operating revenue.

The aforementioned reduction in state revenue during the "great recession" was devastating to the education systems across the nation and State of Washington. However, we in Issaquah were very fortunate that during this economic downturn our local voters supported a four-year maintenance and operations levy with increased funding for our schools. The change in statute which allows for this and provides an additional \$15M a calendar year in funding expires in 2017. The State legislature has continued to gradually increase education funding pursuant to the McCleary decision, however a large portion of this "new" revenue came in the form of COLA's (salary increases) and actuarially needed pension rate contributions. Some additional non-categorical revenue has been provided, but the bulk of "new" state revenue is focused on class size reduction for 2017-18.

The legislature has provided significant structural changes to the education funding for 2018-19 and beyond, which include a decrease in local levy authority (capped at \$2500 per student or \$1.50/1000, whichever is less) this results in a decrease in calendar year 2019 of an estimated \$15.2M in local levy collections (\$59.7M vs. \$44.5M). 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 State in 2018-19 also moves away from the current salary allocation model for certificated staff and funds all employee types (certificated, classified and certificated administrator) on statewide minimum salary allocation that is then to be adjusted by regional factors. The uncertainty in 2018-19 and beyond is palpable, as many questions have been left unanswered by

the legislature. For example, we are unsure under the new “enrichment levy” and state funding schema how we pay for the nearly \$5.4M gap in funding that is currently filled by local M&O levy funds. Other major concerns are how we pay our skilled classified employees as well as our administrative staff, without violating the current enacted legislation.

As the underlying rules are created after the close of this long (completing the operating budget on June 30) legislative session, we hope for more clarity and will work during the next session of the legislature to make technical corrections to areas which will harm our students, community, and staff.

In order to keep staff and community informed and seek input, we offer several communication avenues: the District created 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 64.2% of the funding for general operating costs, the federal government provides 2.6%, and 33.2% is generated through local fees and the M&O Levy.

There are 295 school districts in the State of Washington. Issaquah School District is ranked 269 out of the 295 school districts in terms of total revenue per student. This means that funding is a challenge for the District. The average district receives \$10,937 in revenue for each student while Issaquah School District receives \$10,166 per student. This puts Issaquah School District at a revenue disadvantage of \$15.5 million per year when compared to the state average per student rate.

Where the Money Goes

The Issaquah School District is the second largest employer in Issaquah with over 2,500 full time and part time staff members. (This excludes several hundred substitute employees) These employees are represented by 1,400 teachers, 355 educational assistants, 130 bus drivers, 70 food service workers, 190 office/support staff, 135 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 20,600 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-2	21 students to 1 teacher (Range of 18 to 24)
3-5	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	26.5 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 150-250 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 1,800 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 \$23.5 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 \$5.4 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 120-150 students belonging to districts all

around the State of Washington. This program is not a financial responsibility of the Issaquah School District and is fully funded by the State of Washington

(5) Food Services

The Food Service Program provides over 8,000 lunches to students and staff members every day. That is the equivalent of 1.4 million meals each year. The state and federal government provide minimal funding to support this program. Approximately 93.5% of the cost of this program is paid for from the fees charged for each meal served. This program represents \$5.26M 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 150 school buses that are operated and maintained by District employees and travel over 1.4 million miles each year. The cost of providing these services will be approximately 8.7 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 74.5% of this obligation, leaving the other 25.5% to be funded from the local Maintenance and Operations (M&O) Levy. 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 2017-18

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 and Ends Learning Goals
- Providing a comprehensive educational program that allows opportunity and growth for all students
- 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: 12.15%) for school districts. (Issaquah's admin expense is set for 9.36% in 2017-18 Budget)
- Maintaining and managing the District's resources to protect District assets and guarantee the Board's financial goals

Major Budget Drivers for 2017-18:

- Categorical State revenue of approximately \$12 million, as the legislature continues to restore reductions made during the "great recession" and that are required by the McCleary decision are detailed below:
 - A 2.3% State COLA was provided by the legislature (\$3.3M) with an unfunded cost to the District of \$1.8M
 - An increase in the actuarially required pension rates and the state health benefit allocation (2.3M) with an unfunded cost to the District of \$1.6M
 - A \$6.5M allocation is provided to fund lower class sizes in K-3; each staffing unit needed above and beyond the allocation will cost the local levy an estimated \$35,000. \$3.8 million of the \$6.5M noted above is only for the 2017-18 school year.
- Projected enrollment growth of 534 new students.
- Additional \$3.8 million in local levy revenue over prior year due to enrollment growth and increasing state revenues
- A \$500,000 to \$600,000 investment for new later start times.
- An additional \$1.7M for support positions needed for increased enrollment and administrative requirements.
- Locally funded salary increases of nearly \$6M and state salary (COLA) and benefit backfill of \$3.4M.
- \$1.1M in increased non-employee costs; fuel, commodities, insurance, and utilities.

Conclusion:

The administration certifies that the 2017-18 proposed Budget meets all Board Executive Limitations and meets Board adopted budget parameters.

The final budget will be presented for adoption at the August 23, 2017 board meeting.

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