

**Shoreline School District
Report on Budgetary Outlook**



Executive Summary

The Shoreline School District 2022-23 adopted budget continued a pattern of planned expenditures exceeding revenues. This has been possible by the district's reliance on their fund balance to support their planned expenditure levels. The projected year end fund balance can no longer support this budget strategy.

A 5-year review of Shoreline School District's adopted budgets reflects a plan to overspend its annual revenues in the last four out of five years. These budgets relied upon continued usage of a diminishing fund balance and Federal ESSER revenues for support of the district's staffing levels and expenditure patterns.

Budgeted	2022-23	2021-22	2020-21	2019-20	*2018-19
Total Revenues (Not Including ESSER)	\$ 158,343,754	\$ 148,815,048	\$ 148,765,336	\$ 156,912,379	\$ 150,594,008
Total Expenditures	169,033,000	167,040,000	160,411,940	163,002,681	153,008,527
Revenues Over (Under)Expenditures	(10,689,246)	(18,224,952)	(11,646,604)	(6,090,302)	(2,414,519)
ESSER Revenues	203,246	8,031,952	6,187,327	319,209	
Beginning Fund Balance	11,526,000	15,203,000	11,275,227	15,438,883	14,596,246
Ending Fund Balance	\$ 1,040,000	\$ 5,010,000	\$ 5,815,950	\$ 9,667,690	\$ 12,181,727

** 2018-19 reflects an amended budget approved by OSPI. This amendment increased spending authority. The original adopted budget expenditures did not exceed revenues.*

The adopted current year budget relied upon using \$10,486,00 of fund balance which reduces the fund balance to \$1,040,000. \$884,000 of this balance is non-cash items or, carryover of restricted revenues.

Budget Tracking: The district has created an updated 2022-23 budget projection which factors in the actual YTD revenues and expenditures and projects an ending fund balance of \$3,334,613. While this reflects a positive change, this projected ending fund balance remains inadequate to sustain the district's current operational level through 2023-24. This updated budget projection was projected into 2023-24 and demonstrated an increase in expenditures of \$13M due to inflation, contractual obligations, and other cost drivers beyond the district's control. While state revenues would also increase, the total revenues would remain inadequate to cover the operational costs of the district.

Shoreline School District is faced with an immediate need to develop and implement a plan of reductions for the 2023-24 school year that will allow it to operate within its revenue streams on a continuing basis.

The level of reduction required for 2023-24 is estimated at \$10,452,000. This reduction level does not contribute to rebuilding the fund balance. The district should consider a higher reduction level to build up their fund balance. A recommendation would be to accomplish building the target fund balance over three budget years.

Composition of District Expenditures – 22-23 Budgeted Basis

Expenditure Object	Original Amount	Percent of Budget
(2) Certificated Salaries	\$ 77,822,203	46 %
(3) Classified Salaries	31,968,332	19 %
(4) EE Benefits and PR Taxes	39,207,106	23 %
(5) Supplies and Materials	6,861,808	4 %
(7) Purchased Services	12,916,212	8 %
(8) Travel	125,500	-
(9) Capital Outlay	131,839	-
Total	\$ 169,033,000	100%

The table above presents the composition of the district's original budgeted expenditures by object level. Employee salaries, benefits and payroll taxes comprise 88% of the budget.

The estimated \$10.4 million required reduction cannot creditably be addressed without significantly impacting the district staffing.

- Certificated staff non-renewal of contracts requires employee notification by May 15th. RCW 28A.405.210.
- Bargained contract language for all groups should be reviewed to assess if other notification timelines are present.

Reductions in staffing will require significant time, energy and coordination of multiple units of district leadership to identify and enact any changes, within this short timeline. Failure to meet the deadline significantly eliminates the ability to manage the district's staffing levels.

2022-23 General Fund Budget

A budget in its most simple form is a district's plan to financially operate for the budgeted period. State law requires a district's Board to approve their budget in an open public meeting. Realistically, school district budgets cannot precisely capture the year ahead and are reliant upon numerous estimates and judgements concerning the uncertainties. These estimates and uncertainties include student enrollment, final legislative actions, state administrative actions, employee bargaining outcomes, individual teacher and employee characteristics, and other uncertainties that will not be known or complete at the time of the budget adoption and some not even known until the completion of the fiscal year.

The assessment of the current year's budget and operational outcomes is important in that it provides the starting point for Shoreline School District to forecast its finances into the future years. The 2022-23 budget as adopted and filed with the state continues a pattern of projecting more expenditures than revenues. Shoreline School District has been able to make up for this annual shortfall by reliance upon their fund balance and the influx of Federal ESSER dollars. This is not sustainable going forward.

The district budget and financial materials presented to the Shoreline School District Board on its current financial condition YTD have been reviewed. These materials and other work of staff were used to assess the adequacy of the budget and how fairly it is tracking against the district's current year experience. Consideration was made to identify known items not included in the original budget and consider their impact.

The current budget shows a use of fund balance of \$10,489,000, however variations YTD yield the following:

- Shoreline's student enrollment is coming in higher than budgeted by 245. Additional revenue is \$2.3M.
- The beginning fund balance is higher than budgeted by \$688,639.
- Additional staffing not anticipated in the budget have been added.

Uncertainties

Certain key potential impacts remained unresolved for 2022-23.

- Special education safety net (SNET) has been budgeted at \$1.2M. The district must apply to SNET oversight committee and be approved for such funding. The SNET oversight committee does not meet until June 2023 to consider applications. Risk is considered low as the district has received awards in the past. Award money must be spent in the Special Education program.
- Student Enrollment – State Funding is based on a ten-month average enrollment count encompassing September through June student enrollment counts. Accordingly, Final State Funding will not be known until the end of the school year.
- The outcomes and impacts of the WA legislative session, if any, for the 2022-23 school year.

The district has performed an updated projection of its 22-23 budget to incorporate the actual YTD revenues and expenditures and projected changes through year end.

Composition of District Expenditures – 22-23 Updated Projection

Expenditure Object	Original Budget	Updated Projection	Percent Change
(2) Certificated Salaries	\$ 77,822,203	\$ 80,226,477	3.09
(3) Classified Salaries	31,968,332	30,793,897	(3.67)
(4) EE Benefits and PR Taxes	39,207,106	40,879,948	4.27
(5) Supplies and Materials	6,861,808	6,129,809	(10.67)
(7) Purchased Services	12,916,212	12,945,365	.23
(8) Travel	125,500	125,500	0.00
(9) Capital Outlay	131,839	131,839	0.00
Total	\$ 169,033,000	\$ 171,232,835	1.30

22-23 Budget Conclusion:

This updated budget projection captures an accurate financial picture of where the Shoreline School District is likely to finish its year based upon the key information available on March 15. The projection has been completed using all available key information with estimates and projections for the unknown and may be subject to continued revisions through year end.

2023-24 Baseline Projection

The district has prepared a one-year baseline projection for 2023-24 based upon the 2022-23 projected year-end operational levels. This baseline projection is not a budget but rather projects Shoreline School District's current budget into 2023-24 with adjustments for known changes that are out of the control of the district. It is this baseline document that allows the district to assess actions required to create a balanced budget future for the district.

The known changes incorporated include:

- Student enrollment - The district's primary revenue source is state funding based upon a ten-month average of students enrolled in the district. Average enrollment is a factor that changes monthly/annually. The district has performed their baseline projection using an 23-24 enrollment estimate based upon the current year, past histories and the demographic work provided under contract.
- Legislative Actions - The Washington State legislative session is targeted to end April 23, 2023. Passing the State budget is typically the final bill passed of the legislative session. The state's budget includes the allocations and formulas that provide school funding. As of March 15th, neither legislative house has released their proposed budget.
- Funding Factor Changes - For purposes of addressing the routine and required changes that typically impact school funding, the district relied upon funding factors within the Governors proposed budget presented to the legislature in December 2022.
- State funding formula changes - Include a salary factor that is adjusted annually for an inflation factor as factored into the legislative budget. The Baseline Projection has incorporated an estimate for this compensation increase using the 3.8% Implicit Price Deflator.
- Contractual Obligations – The District has 17 bargaining agreements that address working conditions and compensation matters for its employees. The baseline projection incorporates the impact of these bargained increases within these agreements.
- Any cost savings or reductions that the district may/will/must undertake are **not** included in the Baseline Projection as they have not yet been identified nor adopted.

Year Over Year Change 2022-23 to 2023-24

	22-23 Updated Projection	23-24 Baseline Projection	Percent Change
Total Revenues	\$ 162,352,809	\$ 170,443,047	4.98
Expenditure Object			
(2) Certificated Salaries	80,226,477	85,499,201	6.57
(3) Classified Salaries	30,793,897	32,330,690	4.99
(4) EE Benefits and PR Taxes	40,879,948	44,908,423	9.85
(5) Supplies and Materials	6,129,809	6,861,808	11.94
(7) Purchased Services	12,945,365	14,364,917	10.97
(8) Travel	125,500	125,500	0.00
(9) Capital Outlay	131,839	131,839	0.00
Total Expenditures	\$ 171,232,835	\$ 184,222,378	7.59
Revenue vs Expenditures	(8,880,026)	(13,779,331)	
Beginning Fund Balance	12,214,639	3,334,613	
Ending Fund Balance	\$ 3,334,613	(\$ 10,444,718)	

Note:

The 2023-24 baseline projection above reflects the district's efforts to roll forward the 2022-23 updated projection one year. The baseline projection reflects the district's projected enrollment, contractual obligations, and changes that are out of the control of the district. It does not capture any change decisions by the district. This baseline is a pre-budget document to estimate the costs of making no changes. It informs the budget process and development.

Disclaimer

This review has relied upon key budget and financial reports, and the representations, information, and competence of the Shoreline School District financial management team in supporting the work of evaluating the budgetary outlook of Shoreline School District.

The 2023-24 baseline projection was prepared by Shoreline School District and has been reviewed for completeness, appropriateness in key assumptions, and the district practices in assembling such projection.

Information that may become available or clarified after this report date may impact the basis and accuracy of any such projections.

Calvin W. Brodie

March 15, 2023

APPENDIX: 2023-24 BASELINE PROJECTION NUTS & BOLTS

Below are the key factors used in the development of the 2023-24 projection. These factors are subject to change and refinement as the district progresses through its process of defining its 2023-24 budget for Board adoption.

Revenues

State Revenues – are largely driven by student enrollment. Such revenues have been forecasted for 2023-24 using the following adjustments:

- Forecasted student enrollment by the district.
- Funding formula driver changes and funded payroll and benefits costs as captured from Governor Inslee’s Budget proposal.
- Legislative changes in the 2023-24 staff formula for Physical, Social and Emotional Support (PSES) staffing as required in law.
- The proposed increase in state-funded salaries and benefits as defined in the Governor’s budget proposal.

Local revenues

- Local Enrichment levy – included at amounts approved by the Shoreline School District community.

Federal Revenues

- Federal revenues have been forecasted based the 2023-24 levels.
- No remaining federal ESSR funds are available for 2023-24.

Expenditures:

- Salaries for the current Shoreline School District employees have been increased for the changes in staff education and experience. Cost of living increases pursuant to the district’s 17 bargaining agreements have also been included.
- Staffing level are maintained consistent with the 2022-23 school year.
- State Pension– Adjusted based upon rates reflected in the Governor’s budget.
- Health Benefits- Adjusted to reflect an increase in line with the funding increase provided in the Governor’s budget.
- Non-Employee costs have been increased using a projected IPD factor of 3.8% or other factors.
- IPD Factor applied 3.8%.

About Calvin W. Brodie

Mr. Brodie has worked in Washington State School finance since 1998.

At the Office of Superintendent of Public Instruction, he held the following roles:

- Supervisor of Student Enrollment, and Institutional Funding
- Director of School Apportionment and Financial Services
- Director of School Apportionment, Financial Services and Education Funding Reform

Mr. Brodie was responsible for the administrative operation of the state's funding of K-12 education, the financial accounting and budgeting rules for school district reporting, and revising, drafting and adopting Washington Administrative Code that addresses K-12 funding.

Mr. Brodie was the Executive Sponsor of the project that developed and implemented an overhaul of Washington State's school funding system in 2011 commonly known as the McCleary change.

At the Capital Region Educational Service District 113, Mr. Brodie was the Deputy Superintendent of Business and Operations. This role oversaw the financial operations of the ESD and supported the financial operations of the 44 school districts in his region with training, consulting, and support.

Mr. Brodie has twelve years audit experience with the WA State Auditor's Office and private CPA firms.

Mr. Brodie was a key presenter at the annual WASBO conference and has frequently presented for Washington State School Directors, Washington Association of School Administrators and other groups on matters of K-12 funding.

Mr. Brodie is a past board member and president of WASBO, the Washington Association of School Business Officers.