SHORELINE
PUBLIC SCHOOLS

2025-26 and Beyond Budgetary Outlook Summary Report

Sally D. McLean April 7, 2025

Purpose

The purpose of this report is to provide an independent review of the financial health of the Shoreline School District. This report is based on publicly available information with citations to the data provided in the footnotes. While data was reviewed from 2011-12[1] through current, current year data is compared to 2018-19. The 2018-19 school year was selected as a baseline for comparative purposes for two reasons:

1. this was the year the state-wide funding for salaries changed under the McCleary decision and,
2. this was the last full school year prior to the impacts of the COVID-19 pandemic.

For Shoreline School District the most immediate question is:

> *Does Shoreline School District need to reduce expenditures by an additional $6.5 million to maintain financial stability in the 2025-26 school year?*

There are four significant areas of K-12 funding – enrollment, staff (as expressed in Full-Time Equivalents, or FTE), compensation for staff, and materials, supplies and operating costs (MSOC). Based on this analysis, Shoreline School District does need to reduce expenditures and explore options to accommodate a $6.5 million shortfall for 2025-26, with consideration also given to the impacts of 2026-27 school year. Shoreline School District is one of many facing significant gaps between revenue and expenditures, and solutions will require creativity and collaboration across the District and amongst labor partners. This is not an easy process and is unlikely to be solved legislatively and the **limited** relief that may potentially be found with increases in the Education Programs & Operation Levy and the Technology Levy, with voter approval begin in calendar year 2027 (spring of 2026-27 – two years from now).

Significant Financial Factors

Four significant factors are impacting the financial health of Shoreline School District. These factors are:

- Student enrollment remains below pre-COVID levels,
- Reduced state funding for salary regionalization coupled with unfunded IPD costs,
- Escalating targeted materials, supplies and operating costs (MSOC),
- Declining fund balance, as a result of expenditures growing at a faster rate than revenue.

[1] 2011-12 is the oldest data posted on OSPI's web-site via of the F-195 (budget) summary pages.

The impacts of lower student enrollment, reduced regionalization and escalating MSOC costs alone generate a minimum $6.5 million deficit for Shoreline School District in 2025-26.

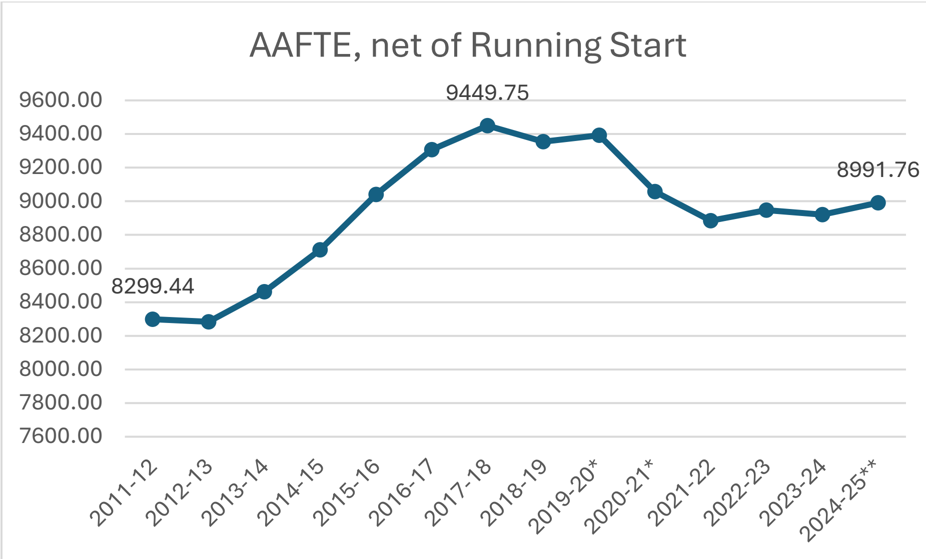
Background

State funding formulas are largely driven by student enrollment (typically the average annual full-time equivalency – or the amount of time a student is enrolled during the school day and through the school year). This formula basis assumes all district costs are variable and will rise and fall in direct proportion to the numbers of students served. This funding formula assumption creates budgetary challenges during both declining enrollment and during relatively stable enrollment. The District's enrollment began declining before COVID and is slowly returning to but still below 2018-29 enrollment levels, and growth rates are more reflective of a stable enrollment.

In accounting terms, school districts contain costs that are BOTH variable and fixed. A variable cost is reflected most directly in the numbers of classroom teachers. If enrollment is growing, more classroom teachers are needed to serve the primary goal of the district. If enrollment is declining, fewer classroom teachers are needed. Fixed costs aren't easily reduced with declining enrollment across the district. For example, a school building will most likely still require a full-time principal, office staff and custodial staff. Other fixed costs also can be found in areas like property and liability insurance, utility costs or district-wide support and Districts still need a comparable number of district-wide support staff to hire or reduce staff, process payroll, pay bills, maintain buildings and more.

While Shoreline School District's enrollment (net of Running Start)[2] is still about 350 AAFTE below 2018-19, enrollment post COVID is on a stable track. This loss in student enrollment reflects a decrease in revenue of approximately $3.9 million. As shown by the chart below enrollment actually began to decline in 2018-19, prior to COVID. Unlike the years prior to COVID, where growth rates were typically greater than 2%, except for 2023-24, current growth rates are much lower – less than 1%, reflecting a more stable enrollment.

[2] Data from Budget Form F-195 and Reports 1251 (aka P223)



<u>Staff Full-time Equivalents (FTE)</u>[3]
Staffing levels as preliminarily reported in 2024-25 are below 2018-19 levels, although additional staffing reductions may be made, the most significant challenge is in the cost of compensation. Compensation includes three components: base salary, additional salary (for example TRI, overtime, additional hours, cash-outs) and mandatory benefits (employer share of health care, social security and medicare, L&I and unemployment).

<u>Reduced Regionalization Impacts for Compensation</u>
Shoreline School District was one of a handful of District's with salary funding that has been reduced from the initial "McCleary" implementation in 2018-19 with a 24% regionalization to the current 18% regionalization. This has resulted in a significant shift in base salary costs to the local levy. ***In 2018-19, about $1.4 million dollars, or 6% of the local levy was used to support base salary costs, which has grown to more than $13.2 million in the current year – or about 49% of the budgeted local levy of $26.8 millon.***

There are four charts on the next page outlining this information. The first two charts show the shift in compensation from the State to local allocations due to the significant decrease in regionalization. The last two charts reflect the total salary allocations based on staff full-time equivalents reported to OSPI via report 1801 (aka S275/S277). Please note that the 2024-25 report is an interim report finalized after August 2025.

[3] Staff FTE data extracted from Reports 1801 Certificated and Classified for each respective year.

2018-19 Average Salary:

24% Regionalization	Average Base Salary	State Allocation	Local Levy	**% Local Levy**
Instructional	$80,910	$80,868	$42	**0.05%**
Administrative (Cert)	$145,982	$120,038	$25,944	**17.77%**
Classified	$58,988	$58,013	$978	**1.65%**

2024-25 Average Salary:

18% Regionalization[4]	Average[5] Base Salary	State[6] Allocation	Local Levy	**% Local Levy**
Instructional	$103,176	$92,287	$10,889	**10.55%**
Administrative (Cert)	$210,449	$136,989	$73,460	**34.91%**
Classified	$78,352	$66,204	$12,148	**15.50%**

2018-19 Total Average Salary Costs:

24% Regionalization	Staff FTE[7]	Total Average Salary	State Allocation	**Local Levy**
Instructional	585.879	$47,403,470	$47,378,806	**$24,664**
Administrative (Cert)	37.373	$5,455,785	$4,488,188	**$969,598**
Classified	416.154	$24,548,092	$24,142,163	**$405,929**
TOTALS	**1039.406**	**$77,407,347**	**$76,007,157**	**$1,400,190**

2024-25 Total Average Salary Costs:

18% Regionalization	Staff FTE	Total Average Salary	State Allocation	**Local Levy**
Instructional	588.147	$60,682,655	$54,278,099	**$6,404,556**
Administrative (Cert)	34.871	$7,338,567	$4,776,928	**$2,561,639**
Classified	344.784	$27,014,516	$22,826,045	**$4,188,471**
TOTALS	**967.802**	**$95,035,738**	**$81,881,072**	**$13,154,666**

[4] Regionalization factors are found on OSPI's Apportionment Reports within Account 3100 I. Computation for Guaranteed School-Generated Entitlement.
[5] Average Base Salaries are found on OSPI's Report 1801 Certificated and Report 1801 Classified for each respective year.
[6] State salary allocations are found on OSPI's Apportionment Reports within Account 3100 I. Computation for Guaranteed School-Generated Entitlement.
[7] Staff FTE are found on OSPI's Report 1801 Certificated and Report 1801 Classified for each respective year.

During this same time frame, the local levy has only increased by about $3.6 million[8]. While some of these increased costs may be borne by categorical programs, it is important to note that the above cost shift from state funding to local levy of $11.7 million dollars is on average base salary only and ignores the increased costs of other compensation (such as TRI costs) and mandatory benefits.   The total compensation costs borne by the local levy will be even higher than $11.7 million when other salary costs and mandatory benefits are added.

This reduction in regionalization from 24% to 18% represents a loss in state funding of $4.2 million[9].

Implicit Price Deflator (IPD)

Across the board salary increases are currently known under state law as IPD. The amount of the across-the-board salary increase is legislatively set and increases state revenue only.   The actual implementation of IPD to increase salary (and the corresponding benefit increase) creates new on-going costs for school districts for three reasons:

1. There are typically more staff employed than funded through the prototypical funding model,
2. The actual compensation costs (average salary and mandatory benefits) exceed the state funding allocation for ALL staff,
3. Other funding streams (federal funding, local funding and even some state special purpose funding) outside of State apportionment do NOT increase automatically.

This report did not analyze staff positions funded beyond the prototypical funding model (reason 1 above), however the minimum financial impacts of items 2 are reflected above in the regionalization chart and reflect a minimum $11.7 M of unfunded average salary. Based on the current budget, state funding (both general and special purposes) account for 75% of the District's revenue – leaving at a minimum 25% of the costs of IPD to be borne by the District through the local levy or federal funding.

[8] From 2018-19 Annual Financial Report (F-196), Revenue Code 1100 Local Property Tax, and 2024-25 Budget (F-195).

[9] Based on 2024-25 Report 1801 Staff FTE, multiplied by a State Salary Allocation assuming 24% regionalization.

Targeted Materials, Supplies and Operating Costs[10]

Between 2018-19 and the 2024-25 budget, the costs of utilities and liability and property insurance compared to state funding increased by $2.4 million dollars as reflected in the next table:

	2018-19 actuals	2023-24 actuals	*2024-25 budget*
Utilities (Activity 65)	$2,433,075	$2,927,075	*$3,180,700*
Insurance (Activity 56 & 68)	$1,110,475	$2,353,007	*$2,920,720*
Total District Costs	**$3,543,550**	**$5,280,082**	***$6,101,420***
State Allocation	$3,214,725	$3,591,264	*$3,678,235*
Locally Funded Costs	**$328,825**	**$1,688,818**	***$2,423,185***
% Locally Funded	13.51%	57.70%	*76.18%*

Fund Balance[11]

Fund balance is often described as a savings account, and in many ways that is an accurate description. Just like a personal savings account, once it is spent it is gone and can only be replenished by reducing expenditures below revenues or increasing revenues. With the primary driver for revenue based on student enrollment, the ability to generate more revenue is limited to asking voters to increase their taxes. An adequate fund balance is also required to ensure that the cash flow needs of the District can be met, as not all revenues are distributed in twelve equal payments – while most expenditures (specifically compensation) are distributed over the course of a fiscal year. The cost of borrowing to meet payroll has a real cost.

Actual ending fund balance declined almost $6 million since 2018-19 – indicating that expenditures are consistently exceeding revenues. Please see the table and graphs below:

Nonspendable, restricted, committed and assigned fund balances are consolidated and labeled "dedicated" for purposes of this table. Amounts are also rounded to whole dollars.

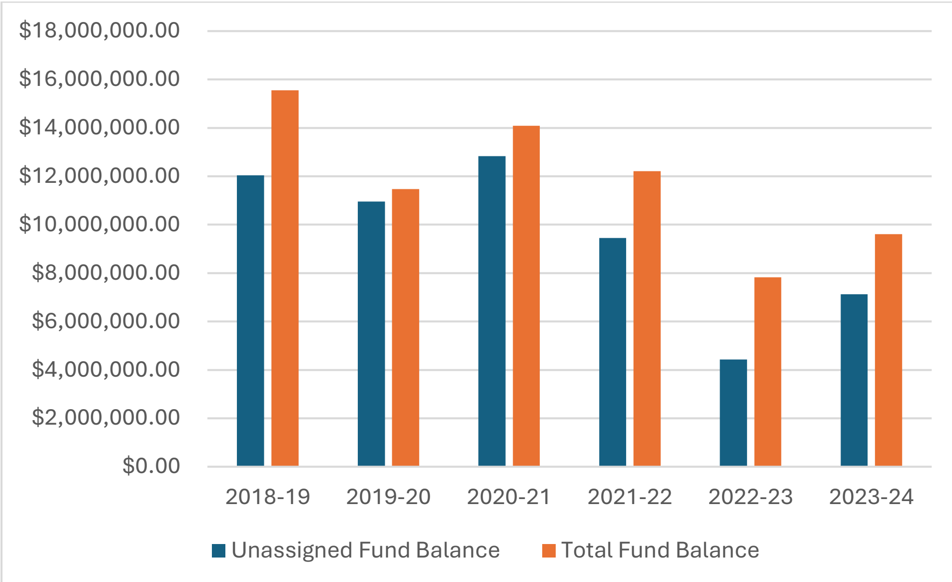
Actual Ending Fund Balances[12]	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Dedicated	$3,513,960	$517,538	$1,253,504	$2,756,865	$3,392,444	$2,482,714
Unassigned	$12,041,241	$10,952,932	$12,833,064	$9,457,774	$4,429,565	$7,128,055
Total	$15,555,201	$11,470,469	$14,088,568	$12,214,639	$7,822,010	$9,610,769

[10] Activity 65 – Utilities and Activities 56 and 60 Property and Liability Insurance from 2018-19 Annual Financial Report (F-196) and the 2024-25 Budget (F-195)

[11] OSPI F-196 Annual Financial Statements

[12] Data from Annual Financial Reports (F-196) from each respective year.

The graph below reflects the changes in unassigned (aka unreserved) fund balances and total fund balance.



Historically the change in actual ending fund balance when compared to budget has ranged between 1% and 5%. Following prudent financial practices, a budget will typically reflect conservative revenues (enrollment) and fully budgeted expenditures (staffing). Consequently it is expected that actual ending fund balance will be higher than budgeted ending fund balance.

The amount of variance depends is based on literally hundreds of variables and a long (18-20 months) time horizon. The most significant variables include enrollment projections, legislative changes, and on-going labor costs established through collective bargaining. As time moves forward, variables and assumption become known, and it is reasonable to expect that actual ending fund balance will be higher than budgeted, as revenues will typically be slightly higher (due to slightly higher enrollment) and expenditures will be slightly lower (due to unfilled positions).

For the Shoreline School District, each 1% represents about $1.8 million. In the budget planning for 2025-26, $2 million of this swing is recognized.

Local Levies

Currently BOTH the EP&O levy and the technology levy are voter-approved through calendar year 2026[13] (impacting 2025-26 and the first half of 2026-27). With a traditional February 2026 special election date, potential revenues increases are not available until calendar year 2027, amplifying the need for reductions and other changes to bridge the gap between 2025-26 budget and 2027-28 (first full-year of potential revenue increases). Even if increases in both levies were available for 2025-26, the amount of likely increase does NOT meet the significant shift in total compensation as regionalization has declined and compensation has increased.

Methodology and Disclaimer

All data used for comparative purposes in this report are based on documents published on OSPI's website and obtained from the Shoreline School District. The 2018-19 school year was selected as a baseline for comparative purposes for two reasons:

3. this was the year the state-wide funding for salaries changed under the McCleary decision and,
4. this was the last full school year prior to the impacts of the COVID-19 pandemic.

Information that may become available or clarified after this report date may impact the financial outlook for Shoreline School District and the information provided in this report.

[13] King County Elections February 8, 2022 Voters Pamphlet

Sally D. McLean

Ms. McLean worked in Washington State public schools from April, 1986 through August, 2021. During this 35 year tenure, she worked for the following school districts in a variety of finance and technology roles:

Bellevue School District
Washington School Information Processing Cooperative
Renton School District
Mukilteo School District
Federal Way Public Schools.

21 of the 35 years was spent leading the finance and operations of Federal Way Public Schools – one of the largest school districts in the state.

During this time Sally McLean was also active on the Washington Association of School Business Officials (WASBO) board serving as Treasurer and President. Ms. McLean was also appointed to a variety of task forces with the Department of Retirement Systems and to OSPI Technical Review Committees. She has testified on behalf of Federal Way Public Schools at numerous legislative committees.

Ms. McLean also served on Federal Way's Communities in Schools board and served as a board member for Woodstone Credit Union (now QualStar).