

School District Binding Conditions and Financial Oversight

Yelm School District
September 25, 2025



Washington Office of Superintendent of
PUBLIC INSTRUCTION



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Presenter Information

Questions to Answer

- What is the state's process in working with districts experiencing financial difficulty?
- What factors are impacting school district financial performance in recent years?
- What is Yelm School District's status in the process?
- What does a successful state oversight process look like?

Background Information

- School districts are required to report to OSPI the financial plans or status of the district multiple times per year as follows:
 - Budget for upcoming school year (August).
 - Budget extension to increase the authority for the district to spend above currently approved limit (as needed).
 - Financial statements (November).
- The financial activities in these reports must result in a *positive fund balance* for the period being reported.
- Not doing so requires a district to enter state oversight.



State's Process for Financial Oversight

- There are three formal stages of state financial oversight:
 - Binding Conditions
 - Yelm, Shelton, Mabton, Tukwila, Mt. Baker, Bellevue
 - Financial Oversight
 - No districts assigned here.
 - Enhanced Financial Oversight
 - Prescott and Marysville
- Each of these are jointly administered by OSPI and the local Educational Service District (in this case, ESD 113).



Binding Conditions

- Binding conditions are a set of financial performance goals that the district must achieve through local decision making.
- A district must request binding conditions if they submit a formal budget, budget extension, or financial statement that ends in a negative fund balance.
- Being placed on binding conditions does not automatically nullify or otherwise impact existing collective bargaining agreements.

Financial Oversight Committee

- If a district is unable to construct a viable financial plan that restores a positive fund balance within two school years, OSPI must convene a Financial Oversight Committee (FOC).
- The FOC must construct an alternate financial plan for the district and hold a public hearing at the school district for feedback.
- After hearing from the public, the FOC makes a recommendation to the state superintendent which could include remaining on financial oversight, moving to enhanced financial oversight, or dissolution of the school district.



Enhanced Financial Oversight

- Requires the appointment of a special administrator to work with the district on behalf of the FOC to achieve financial goals.
- Monthly meetings between the FOC, school district superintendent, business officer, and board president.
- The FOC can require pre-approval of certain financial transactions or activities.
- If a district cannot return to financial stability within two years, the FOC can require dissolution of the school district.

Factors Impacting School District Finances

- Declining or stagnant enrollment.
- Inflation exceeding the state formulas.
- Relying on one-time cash or revenue sources to cover ongoing expenditures to meet cash flow needs.
- Loss of significant revenue source either state, local, or federal.
- Lack of a plan to address imminent financial challenges.

Financial Health Checklist

- A financial health checklist which provides school board or community members a list of questions to ask about the financial performance of their district is available here:
[Financial Health Checklist](#)
- Example Questions:
 - *Does the district's current 12-month General Fund cash flow projection contain three or more months of negative position?*
 - *Does the district's General Fund contain cash borrowed from another fund within the district?*



Yelm School District – Current Status

- Placed on binding conditions September 3, 2024.
- At that time, the district submitted a budget for the 2024-25 school year which reflected a negative general fund balance of (\$1,312,549).
- The district has actual ending fund balance goals in place as part of the binding conditions agreement as follows:
 - 2024-25 School Year (\$1,312,549)
 - 2025-26 School Year \$900,000
 - 2026-27 School Year \$2,700,000



What does success look like?

- Successful state oversight monitors the financial situation of the district to return it to financial health within two school years.
- This is done primarily through increased communication and information sharing between the school district, the ESD, and OSPI.
- The objective of state oversight is not to consolidate districts, remove local decision making, or impact local collective bargaining processes.

Questions?





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