Overview

Objectives
• Revisit the projection volatility in recent years
• Review the implications of the 2019-2023 fiscal outlook

Key performance outcomes
• 4.1.a – Long-term planning in finances, staffing, technology, and facilities are intentionally and systematically driven by student enrollment, learning measures, and strategic priorities.
• 4.1.b – A minimum ending fund balance of five percent is maintained in the general fund.

Board goal
• S.3.a – Establish budget priorities to align with strategic priorities, Instructional Review priorities, and legislative mandates.
Projection volatility in recent years
October 2015 fiscal outlook

- Two major variables influencing long-range projections
  - Passage of a 2016 capital levy for maintenance and technology
  - Legislative action on levy cliff prior to the 2017-19 biennium

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<td>$15.2 M</td>
<td>$15.2 M</td>
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<td>Percentage of expenditures</td>
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<td>6.40%</td>
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<td>2016-17 Adjusted revenues</td>
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<td>Percentage of expenditures</td>
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Projection volatility in recent years

May 2016 budget development workshop

• Capital levy passes mitigating significant technology expenditures
• High urgency to fix the levy cliff early in the 2017 biennial session
• Levy cliff consisted of two major factors
  † Reduction of levy authority from 28 percent to 24 percent
  † Elimination of “ghost funding” – “plugs” in levy formula to increase local cap
Projection volatility in recent years

March 2017 budget development workshop

- SB 5023 delayed levy cliff for **one** year early in the 2017 session
- Delay prevented numerous districts initiating a reduction in force
- Following three extended sessions, the legislature unveiled a new levy formula that would create a new set of funding issues
Projection volatility in recent years

October 2017 fiscal outlook

- June 30, 2017 the legislature approved EHB 2242
  - Everett’s levy was capped at $1.50 per student
  - Employee compensation was originally phased in with 50 percent in 2018-19 and the second 50 percent in 2019-20
- The levy fix was critical to mitigating cuts
- Regionalization factor emerged as a new structural deficit

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Projection volatility in recent years

March 2018 budget development workshop

- Short legislative session resulted in full funding of compensation
- Legislature did not address $1.50 levy cap
- Focus shifted to fiscal restraint to offset future cuts

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Projection volatility in recent years

March 2019 budget development

- August 2019 OSPI waved the 3.1 percent salary cap
- Statewide bargaining resulted in significant salary increases
- 2018 legislature adjusted levy, mitigating cuts for 2019-20
  - Levy cap is increased from $1.50 to $2,500 per student
  - Voter approved levels are $2,350 per student for 2020 and 2021 increasing to $2,500 in 2022 to mitigate the regionalization phase out
Projection volatility in recent years

Fund balance management history

• Prior to McCleary the district preserved a six percent balance
  ▪ $17 million in cuts from 2009-2011 were necessary
• 2012-13 budget anticipated a spend down to 5 percent
  ▪ SHB 2776 committed to added funding in 2012-13
• Following reinvestment in programs, fund balance was increased from 2014-15 on to brace for major cuts
Projection volatility in recent years

What have we learned?

• Legislature consistently practiced “just-in-time crisis aversion”
  - 2015 and 2017 sessions concluded the eve before a government shut down and after three extended sessions
  - 2019 session raised levy cap and ended on time in April just ahead of Reduction in Force (RIF) deadlines
  - Everett had sufficient funds to avoid RIF if the cap was not fixed
  - Even with raised cap a few districts like Edmonds, still conducted a RIF

• Districts were at odds on major policy issues
  - Levy and Local Effort Assistance (LEA)
  - Cost of living regionalization factor
  - Fully fund SEBB in 2020 or delay SEBB program

• Major funding variables led to multiple projections
  - Will SEBB be fully funded?
  - Will the levy cliff be averted?
  - Will the levy cap be raised?
  - Will the special education shortfall be addressed?
  - When will employee compensation be funded?
Overview of 4-year fiscal outlook
Overview of 4-year fiscal outlook

What is different looking forward?

• Major funding cuts are not foreseen provided that:
  - Levy regionalization phase out is not accelerated
  - No reduction to levy cap and CPI remains stable
  - State revenue forecasts keep pace with current K-12 commitments
  - Salary increases return to historic patterns following McCleary “reset”

• Structural deficits are the new norm without legislative change
  - Regionalization factor declines from 24 percent to 18 percent from 2020-21 through 2022-23 lowering revenues by $3 million per year
  - Levy is capped at CPI with ten-year average increase of 1.9 percent
  - Ten-year average levy increase is 4.9 percent

• More predictability allows less conservative estimates
  - Even a 0.5 percent swing up or down is $3.5 million variance
  - Recent planned use of fund balances did not happen
  - Recent projections assumed all allocated resources would be fully spent which typically does not occur
  - 10.1 percent* beginning fund balance buffers added risk

(* 2018-19 ending fund balance of 10.6% of expenditures drops to 10.1% with 2019-20 expenditures)
Overview of 4-year fiscal outlook

Assumptions

• Legislature keeps pace with annual “maintenance level” funding increases and economic forecasts remain positive

• Little increase to federal categorical funding (Title programs)

• Salary and benefits
  ✷ Statewide market rate adjustments were unprecedented as a result of significant state funding increases
  ✷ Future salary increases will return to historical patterns
  ✷ Local impact of SEBB is modest in comparison to other districts

• 2018 voter approved local levy through 2022, and voter approval of the 2022 levy with a modest increase for 2023

• Professional development funds are maintained

• Current long-range curriculum plan is funded
Overview of 4-year fiscal outlook

**Projection**

- New projection less conservative than August budget forecast
  - $2.2 M in rolling carryover of unspent funds below those budgeted
  - $1.0 M due to unfilled vacancies for 2019-20

- New projection is more favorable than August budget forecast
  - $1.4 million increase in beginning fund balance
  - $600,000 decrease to local impact of SEBB
  - $1.7 M one-time transportation surplus in 2019-20
  - $1.0 M reduction in salary cost due to lower staff experience factor

- New projection supports planned reductions of $1-2 million for 2020-21 to raise the ending fund balance above 8 percent
Overview of 4-year fiscal outlook

November 2019 forecast

- Current forecast calls for $1-2 million in cuts for 2020-21

![Graph showing fiscal outlook with percentages for different fiscal years: Actual, Forecast, Operating Budget, Revised Projection, Begin Expenditure Reductions, Maintain Minimum Fund Balance (4.1.a).]
Overview of 4-year fiscal outlook

Future influences on long-range projection

• Favorable factors
  - Increased state funding including, but not limited to, special education, prototypical school model, and freezing the 24 percent regionalization factor
  - Increased state funding for high school 7-period day
  - Increased federal funding
  - Adjustments to SEBB eligibility thresholds
  - Bump in levy cap for 2022 Educational Programs and Operations Levy
  - Passage of 2020 capital bond
  - Most labor contracts in place until 2021-22 following 2021-23 biennial session

• Unfavorable factors
  - Acceleration of timing for, and increased severity of, the next recession
  - Major reduction in state and federal funding
  - Unfunded federal and state mandates
  - Increased local salary and benefit costs
**Overview of 4-year fiscal outlook**

**Summary**

- High level of projection uncertainty over the past decade
- Uncertainty often required two budgets
  - Adopted budget allowed for best case scenarios
  - Actual allocations were much more conservative pending legislative outcomes
- General fund reserves were increased accordingly
- High fund balance provided buffer against major and immediate cuts
- Post-McCleary projections more stable but include structural deficits
  - Phase out of regionalization
  - CPI as levy growth factor
- Belt tightening reductions are planned for 2020-21
- Without added revenues, $5-7 million in cuts will need to be implemented for 2021-22
Questions