



Fiscal Outlook 2020-24

Board of Directors Meeting
November 24, 2020

Overview of 4-Year fiscal outlook



Overview

- 2019 Legislature created two structural deficits for Everett
 - ♦ Salary regionalization, lowering funding from 2020-2023
 - ♦ New levy formula cap with limited growth over time
- November 2019 fiscal outlook called for \$1-2 million in cuts for 2021-22 followed by major cuts for 2022-23, without legislative action
- March 2020 budget workshop affirmed a 2020-21 budget plan
 - ♦ Schools buildings were closed due to COVID and legislative session ended that same week
- June 2020 budget adoption made clear that cuts for 2022-23 have now accelerated to 2021-22 in the range of \$10-13 million
- Spring/summer savings and unrealized expenditures of \$4.5 million combined with \$715,000 of CARES, raised ending balance to 11.4%
- Higher beginning balance and fall cost savings are critical yet COVID enrollment, transportation, and unemployment impacts still call for \$10-13 million of cuts, pending favorable legislative actions



Twelve-Month Review



What have we learned?

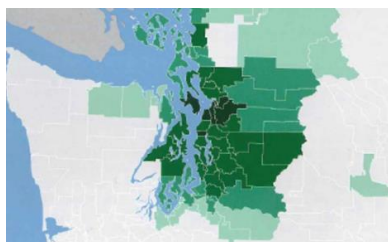
- Legislature consistently practiced “just-in-time crisis aversion”
 - ♦ 2015 and 2017 sessions concluded the eve before a government shut down and after three extended sessions
 - ♦ 2019 session raised levy cap and ended on time in April, just ahead of Reduction in Force (RIF) deadlines
 - ♦ Everett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



What is different looking forward?

- 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 state salary revenues by \$3 million per year
 - ♦ Levy is capped at CPI with ten-year average increase of 1.9 percent, while historically 10-year average levy increase of 4.9 percent kept pace with local contract commitments

Regionalization Salary Cut More than IPD



OSPI Projections	2020-21	2021-22	2022-23	Factor Use
IPD	1.6%	1.9%	2.0%	Salaries
Less Regionalization	(2.0%)	(2.0%)	(2.0%)	Phase out
Net Salary Funding	(0.4%)	(0.1%)	0.0%	Inc./ (Dec.)



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 federal program funding
- ☒ Adjustments to SEBB eligibility thresholds
- ☒ Bump in levy cap for 2022 Educational Programs and Operations Levy
- ☒ Passage of 2020 capital bond
- TBD** Most labor contracts will be open at the end of this year

- Unfavorable factors

- ☒ Acceleration of timing for, and increased severity of, next recession - **COVID**
- ☒ Major reduction in state and federal funding - **enrollment/transportation**
- ☒ Unfunded federal and state mandates - **staff contracts in place/lost enrollment**
- ☒ Increased local salary and benefit costs – **unemployment costs**

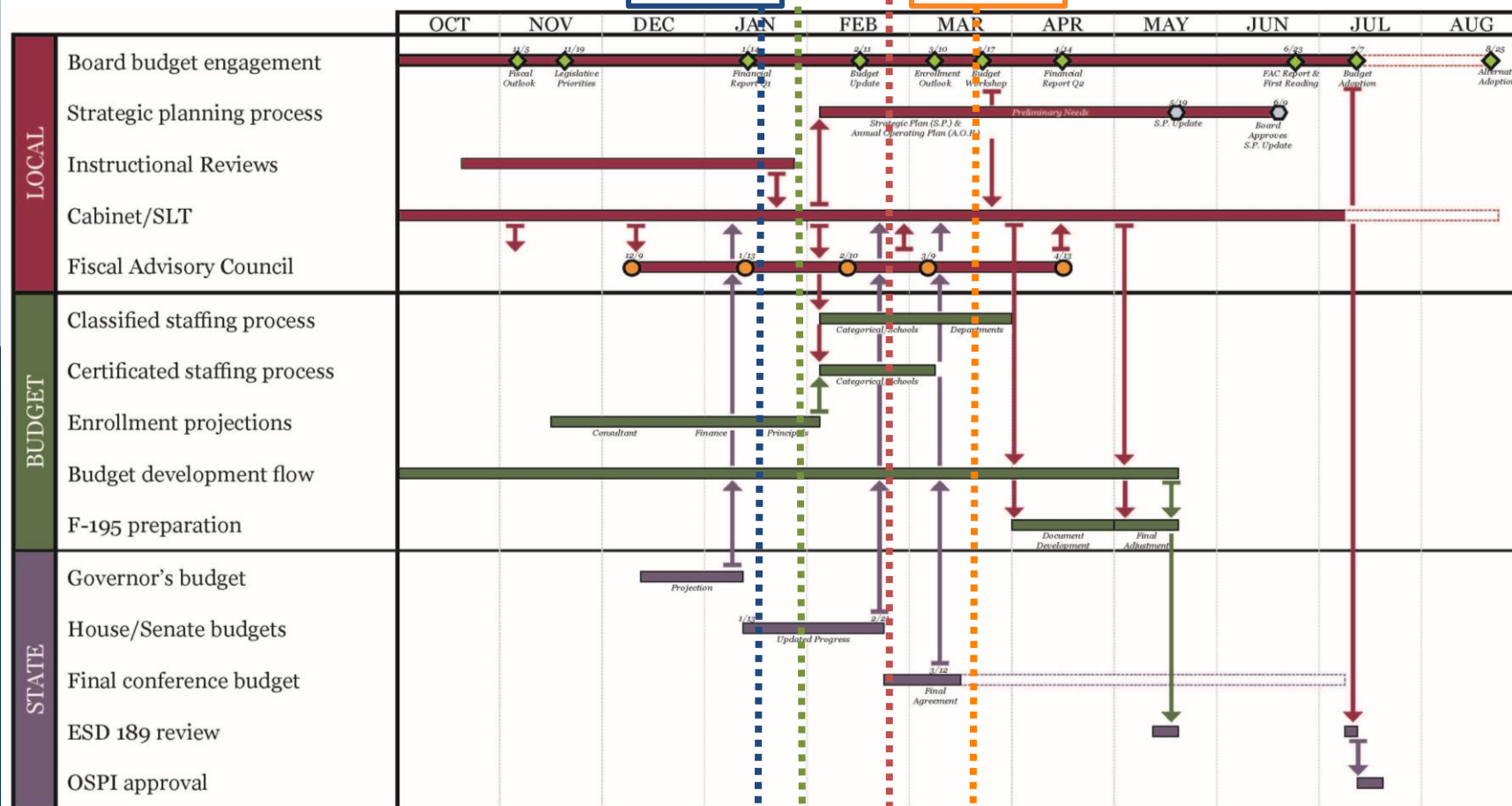


Budget workshop discussion March 2020



Planned early hiring

- Accelerated schedule



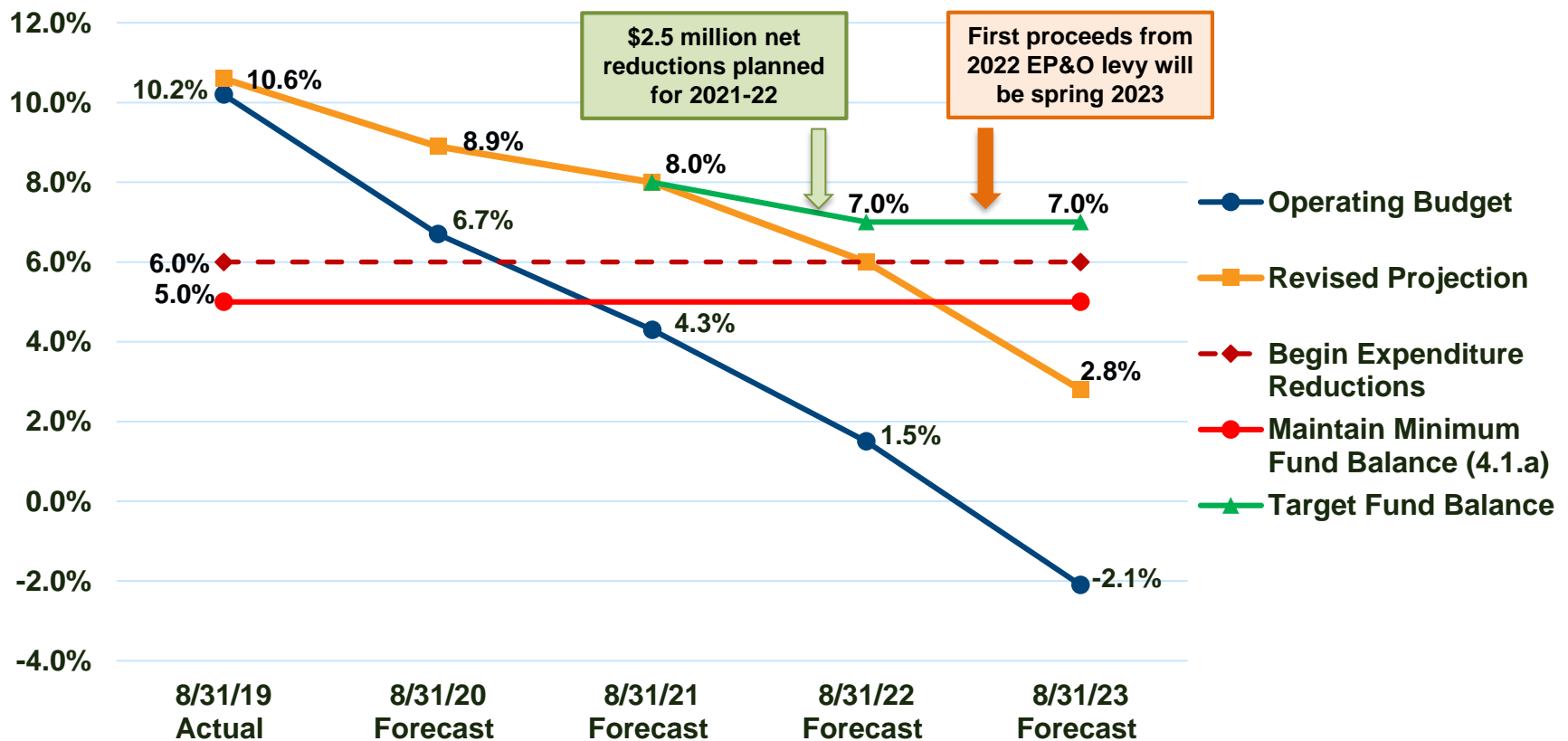
Updated 10/10/19

Budget workshop discussion March 2020



Fund balance management plan

- Use of fund balance will mitigate the magnitude of cuts
- Draft budget plan results in net reduction of \$2 million for 2020-21
- 2021-22 use of fund balance reduces cuts to \$2.5 million



Budget adoption first reading June 2020



COVID accelerated magnitude of 2021-22 cuts

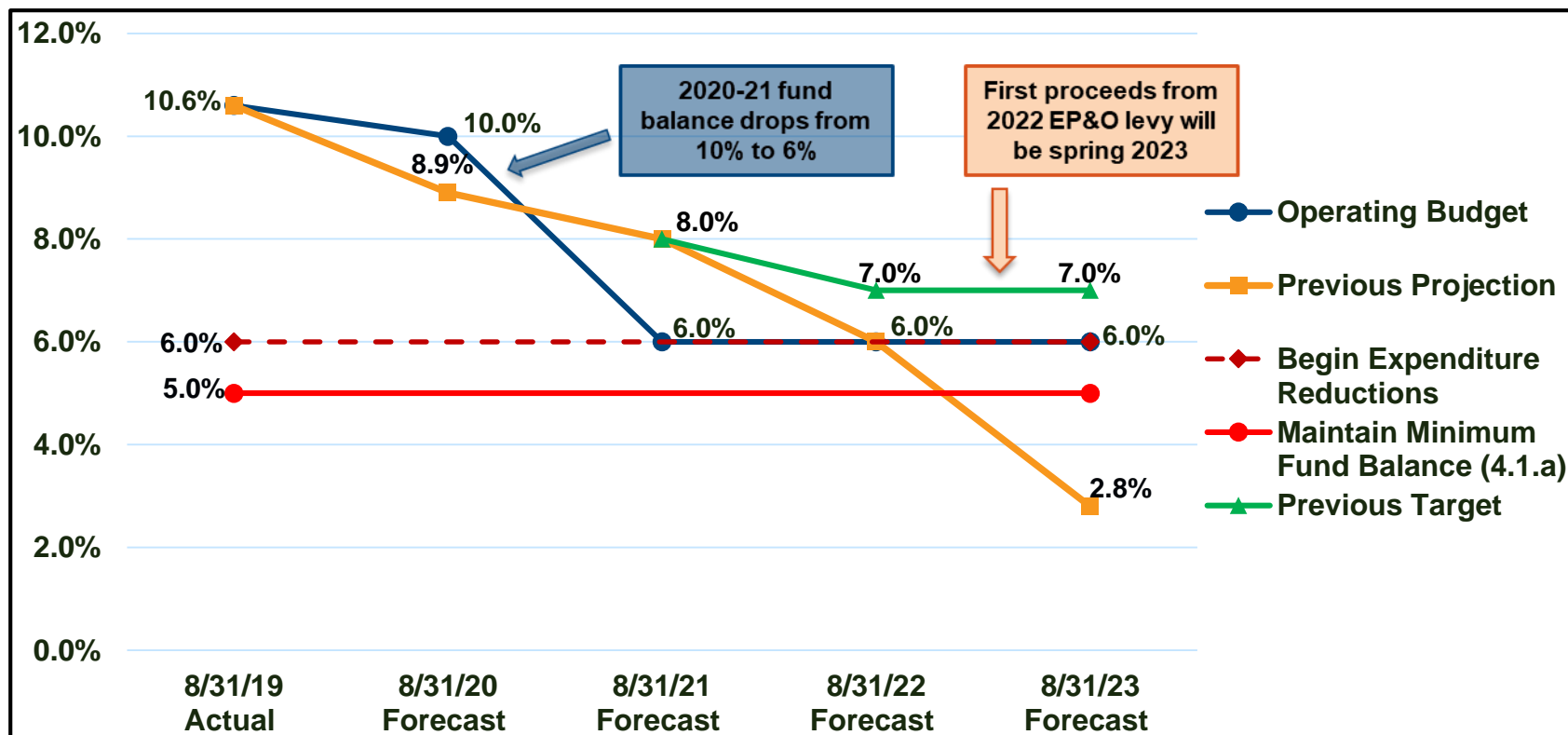
- 2020 Legislature concluded in March with minimal K-12 increases
- \$3.4 million legislative formula rule change cut transportation funding
- \$2.25 million special education
- \$1.4 million in levy funding, if collections drop to 97%
- \$680,000 salary funding cut due to drop in Implicit Price Deflator (IPD) from 1.9% to 1.6%
- \$450,000 interest earnings from lower cash balances and lower interest rates
- \$250,000 risk pool increase
- \$250,000 SEBB funding shortfall

Budget adoption first reading June 2020



Updated 4-year projection for 2020-21 budget

- Cuts for 2022-23 have accelerated and added to 2021-22 cuts
- Compounding impacts result in \$10-13 million of cuts
- Cost control measures will continue in 2020-21





Fiscal Outlook

2019-20 ending fund balance improves



Cost savings and unrealized expenditures

- \$380,000 additional underspent capital levy to total \$680,000
- \$580,000 position vacancies and overtime
- \$300,000 leave cash outs

Increased revenues

- \$715,000 CARES/ESSER reimbursement allowed by OSPI for lost food services revenues last spring
- \$500,000 higher levy collections than anticipated with tax deferral

2019-20 ending fund balance totals 11.4%

General Fund	August 31 Year-End
Beginning Fund Balance (9/1/2019)	\$33,083,051
Revenues and Transfers In	\$328,383,732
Expenditures	\$324,372,372
Ending Fund Balance (8/31/2020)	\$37,094,411
Percentage of Total Expenditures	11.4%

Fall cost savings further offset impacts



Fall COVID monthly cost savings

- \$585,100 total initial savings per month beginning in September
 - ♦ \$ 48,100 District driver furloughs
 - ♦ \$ 47,300 Food services furloughs
 - ♦ \$ 41,800 Health room and supervision paraeducator furloughs
 - ♦ \$ 40,000 Materials, Supplies and Operating Costs (MSOC)
 - ♦ \$ 35,100 Custodial, mover and refuse furloughs
 - ♦ \$ 2,800 Cabinet member furloughs
 - ♦ \$370,000 Durham drivers
- \$200,000 substitutes savings per month
- \$116,000 vacancies and overtime per month



Transportation savings do not offset shortfall

- Funding formula cuts annual funding of over \$10 million by 50-60%
- First semester furlough savings may reach \$3.2 million
- Even if state formula is fixed, funds can only be used on busing

Fall cost savings further offset impacts



Non-transportation savings total \$2.4 million

- Remaining savings total \$483,000 per month and could reach \$2.4 million by end of first semester

ESD 189 unemployment pool costs skyrocket

- ESD pool issued fall invoice of \$1.3 million
- With another spring special assessment, the impact is \$2.6 million
- Without future federal assistance, cost negates 5-monthly savings

Lower enrollment lowers funding

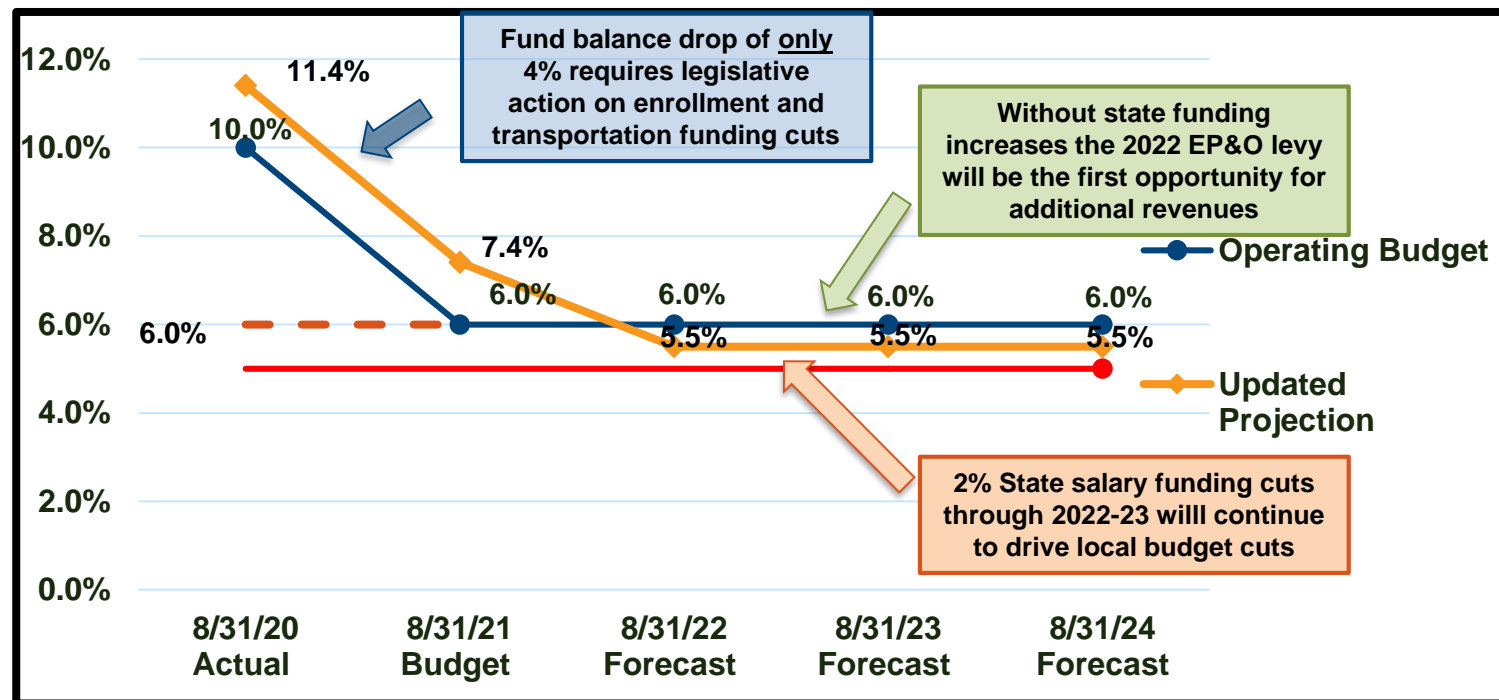
- 808 student drop at \$10,117 per FTE totals \$8.2 million cut
 - ♦ Additional cut of \$10,037 per Special Education student
- 34-36 teachers needed for 808 students depending on grade level
 - ♦ 17 elementary positions not filled, anticipating low enrollment
 - ♦ 3 contingent positions for full classes not needed
 - ♦ 15 positions remain to support the remote and hybrid learning models
- Vacancies help reduce funding shortfall to about \$5.3 million

Updated outlook still requires major cuts



Projection holds 2021-22 cut at \$10-13 million

- 11.4% beginning balance helped mitigate deeper cuts
- Projection assumes legislative fix for enrollment and transportation
- Significant cuts also required for 2022-23 pending favorable legislative funding and levy formula fix





Fiscal outlook summary

Key points

- Since March 2020, saving efforts and unrealized expenditures have **totaled over \$10.1 million** (including \$3.2 million in transportation)
- Enrollment and transportation ridership drops result in significant funding cuts requiring early legislative action in first 30 days
- Unemployment costs of \$2.6 million compound fiscal impacts
- December Governor's budget could help and set the highwater mark
- Early legislative action will help mitigate 2021-22 cuts
 - ♦ Enrollment hold harmless for state allocation
 - ♦ Transportation funding model adjustments
- Full session legislative actions could help future years
 - ♦ Enrollment hold harmless on 2022 levy formula
 - ♦ Increased funding for special education, SEBB and prototypical school model
- Other factors that can improve 2021-22 budget outlook
 - ♦ Federal relief funding for district and ESD for unemployment pool
 - ♦ Improved state revenue forecasts



Questions