

**Question-- Given that if Orcas doesn't make the financial course corrections necessary the State will require a Fiscal Recovery Plan and the ESD will be involved. What would the recovery plan be from the ESD regarding Orcas: Staffing, Budget, ESD governance, changes in school structures or schedules etc.**

Response--

Attached please find a copy of [Chapter VII of the OSPI Accounting, Budgeting and Financial Reporting Manual](#). As is presented on page 3, "When it becomes necessary for a district to budget receivables, the school district must deliver a petition in writing to OSPI . . . . If the request for budgeting receivables is approved by OSPI, the approval will contain binding conditions placed on the district by OSPI (please see sample in section 2 of this chapter) to ensure improvement of the district's financial condition." This provides a pretty clear presentation of the conditions under which OSPI would establish a requirement for a *Fiscal Recovery Plan* and the factors would typically be included within it.

The sample letter spelling out the binding conditions that OSPI would impose on the Orcas Island School District does not release the District from its responsibility to prepare a workable *Fiscal Recovery Plan*. In other words, it is not a NWESD recovery plan for Orcas Island School District. Rather, the District is required to prepare a proposed recovery plan and to submit it to NWESD for approval. It is unlikely OSPI will approve any *Fiscal Recovery Plan* the NWESD views unrealistic. Once the *Fiscal Recovery Plan* is developed and approved, the NWESD is required to monitor the District's adherence to the plan and to immediately report to OSPI should the District not adhere to the plan. OSPI has the authority to withhold apportionment payments to the District if it does not adhere to the plan or meet any of the binding conditions. For example, other binding conditions require: 1) any expenditures, purchase orders, A/P, or payroll related expenditures would require NWESD approval before a commitment is made; 2) the NWESD would review such expenditures to make sure that they fall within the District's approved recovery plan; 3) extensive requirements upon the District for financial reporting to the Board and NWESD (at District expense and far more detailed than what the District is currently doing). Again, if the District failed to comply with any of the binding conditions established by OSPI, and monitored by NWESD, the District would likely have its apportionment withheld until corrective actions conform to the approved *Fiscal Recovery Plan*.

Practically speaking this means the *Fiscal Recovery Plan* would have to be developed such that NWESD found it to be reasonable. It is impossible to hypothetically describe/present what such a plan would look like a year from now (when the current District fiscal trend would require budgeting receivables-- unless there is a sustained course correction). I am comfortable re-iterating the general concerns/advice offered last year:

- The District's declining enrollment trend hasn't resulted in a reciprocal program reduction, which must occur.
- A reasonable target for an unreserved fund balance is between 5% and 6% for the small Orcas Island School District (the cost of replacing a failed roof or boiler would constitute a larger percentage of the Orcas GF than in a larger district). This would be approximately \$250,000 to \$300,000.
- A reasonable timeline to achieve this target would be 3 years-- or approximately \$150,000 (3%) in year one, an additional \$100,000 in year two, and another \$50-100,000 in year three.
- As more than 85% of the District's budget is personnel (salary/benefits), a significant portion of the reductions will be personnel-related.
- Reduce certificated administrative staffing levels from the current 3.0 FTE through the combination/reduction of positions.
- Reduce certificated instructional staff by at least 3.0 FTE. Careful attention will need to be provided categorical staffing formulas to assure minimum requirements are met (e.g., K-3 enriched staffing levels, vocational staffing). Those programs that are expending more than required by state allocation (e.g., vocational) should be adjusted for the short-term (until the fund balance is stable) to compliance levels where reasonable. In addition, those programs that realize attrition should be the first examined for staffing reduction, providing program requirements permit such. And finally, if any staff are considering a leave-of-absence for one year those not be replaced unless essential.
- Begin the process of revising IEPs during the annual renewal process to generally provide appropriate support for special education qualified students within regular education classrooms, thereby reducing the greatly enhanced staffing that is currently subsidized by basic education dollars. This will require a multi-year approach (unlike what was attempted last year). There is a Special Program Analysis and Recommendation document that provides more typical program models/staffing levels for guidance.

- Assist staff and community to appreciate the difference in an allocation formula (BEA funding method) and entitlement formulas. This would help develop appreciation for the grossly unfunded costs that are subsidized with BEA funds.
- Place no reliance on increased enrollment, unsecured grant funding, etc. to balance the budget.
- Establish and maintain strong fiscal controls and monitoring.
- Reduce non-employee-related costs wherever practical. The only exceptions would be health/safety and to protect community investment in facilities through reasonable maintenance.
- Explore alternative scheduling options to maximize the required reduced program offerings available with the reduced staff. This may require prioritization in the negotiations process (bargaining for relaxed class size and/or planning time adjustments).

***Question-- Could the ESD provide some information on how other districts in declining enrollment have elected to deal with their situations?***

Response--

We do not have time to identify and collect specific strategies from similarly sized districts with declining enrollment. (There are few districts your size with maximum levy collections, as most districts are in eastern Washington where levy collections are generally smaller portions of the GF.) However, Orcas currently receives financial guidance from a team with more than 40 years of combined experience. Specifically, Ben Thomas has successfully guided two districts through difficult financial recoveries. (Indeed, one district work began in a much worse situation with a substantial negative balance.) My strongest comment and advice is to rely upon the experienced and reasoned proposals Ben is providing. Districts facing financial challenges typically do exactly what Ben is trying to do with the Orcas School District. First and foremost, funding levels are compared to staffing levels on a district-wide basis. Second, efforts are made toward examining the non-employee related costs and the budgeted expenditures in NERCs are divided between discretionary (classroom supplies, textbook adoptions, etc.) and non-discretionary expenses (insurance, utilities, data processing fees, etc.). It is inevitable that staffing reductions occur as this is the largest part of the budget.

***Question-- Our community budget meeting is meeting next on Friday, March 30th at 3:15 p.m. Is it possible that a representative from the ESD could join us to share the ESD's findings.***

Response--

I am sorry, but I have a commitment in Everett that afternoon/evening at the Washington Information Processing Cooperative (WSIPC). Marilyn Sollers can be available if you feel her attendance would be of value. I have some concern that she not be placed in a situation where understandable frustrations with the impacts of the required reductions are taken out on the "bearer of bad news." If you, in any way, think the meeting might evolve into such a situation I would rather schedule another time when I could come out. Please advise.

Hopefully, you and your committee will find these comments responsive to your questions. That is my earnest attempt.

Sincerely,

**Jerry**

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