



# **School District Binding Conditions and Financial Oversight**

# Presenter Information:

## **JoLynn Berge, Deputy Superintendent, ESD 113**

JoLynn was the previous CFO at OSPI until 2016, where she helped author the Financial Oversight report. JoLynn held the position of CFO at Seattle Public Schools for 6 years prior to joining the ESD in 2022.

## **T.J. Kelly, Chief Financial Officer, OSPI**

T.J. has worked at OSPI for over 10 years and has implemented the prototypical funding formula, K-3 class size and all other new funding from the Leg since 2010.

# Learning Objectives

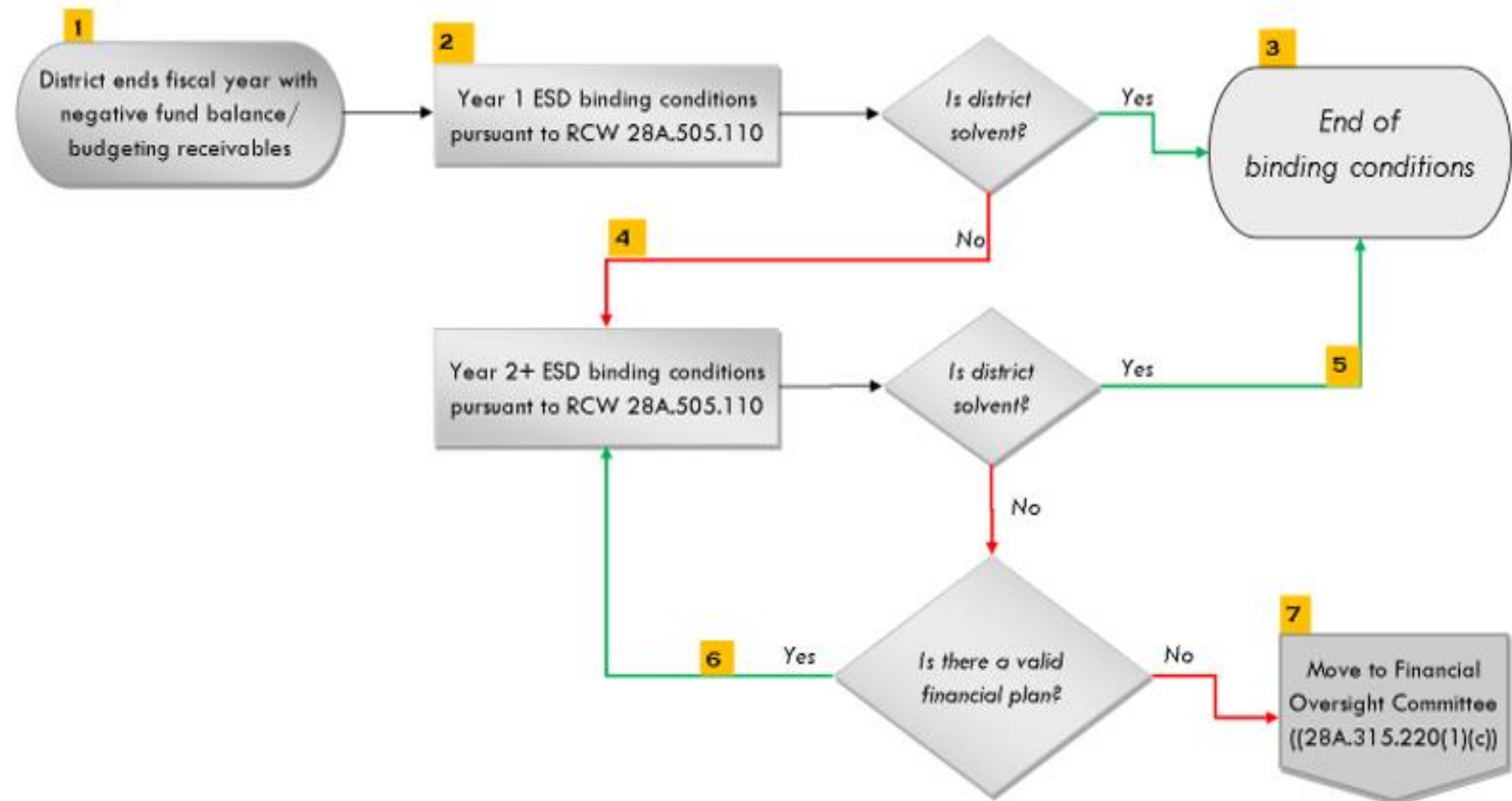
- Understand what are binding conditions, how districts enter into and exit binding conditions.
- Understand what Financial Oversight is, how districts enter into and exit financial oversight.

# Binding Conditions - Overview

- School districts must submit a budget to OSPI annually
- Expected expenditures must not exceed expected revenues from all sources
- If budget is not balanced, district may petition to include future revenues
- Approval requires agreeing to binding conditions to improve financial condition

# Binding Conditions - Overview

Figure 2: Binding Conditions



1. To be placed on binding conditions, a district must end the year with a negative fund balance or need to budget receivables collected in the future to balance its budget.
2. In such a situation, the district goes to binding conditions.
3. If binding conditions result in the district becoming solvent (and meeting all other requirements), the district leaves binding conditions.
4. If not, the district enters the second year (Year 2+) of binding conditions.
5. If the district can achieve solvency (and meet any other requirements), it will exit binding conditions.
6. If after the second year the district is not solvent, the ESD and OSPI determine if there is a valid financial plan in place to bring the district back to solvency.
7. If the district has a valid plan for achieving solvency, it remains on binding conditions.
8. If there is no valid financial plan, the district is referred to the Financial Oversight Committee.

# Administration of Binding Conditions

- ESD Fiscal Officer assigned as administrator for school district's ESD
- Administrator serves primarily as financial consultant to school district
- Limited authority to ensure compliance with binding conditions
- Less than 15 districts have been on binding conditions over the last 10 years.
- Most resolved finances in 1-2 years
- Less than 5 of these have had student enrollment greater than 2,000 FTE.

# Benefits of Binding Conditions

- Allows school districts to borrow against future state apportionment payments
- Provides opportunity for financial improvement and stability
- Encourages fiscal responsibility and accountability
- Binding conditions are an important tool to help school districts improve their financial condition
- ESD Fiscal Officer serves as a valuable resource to ensure compliance with binding conditions
- Success stories demonstrate the effectiveness of binding conditions in helping districts achieve financial stability

# Examples of Binding Conditions

- Here are some examples of binding conditions:
  - By November 30, 202X, the district’s general fund balance must be greater than (\$5,000,000).
  - By January 31, 202X, the district’s projected year end general fund balance must be greater than \$0.
  - By October 31, 202X, the district’s CIS staff ratio must not exceed 46:1,000.
- None of these require the district to take any specific action.
- These are ‘benchmarks’ the district must achieve through actions that are locally determined by their school board.



# Financial Oversight - Financial Insolvency in School Districts: Definition and Oversight

Financial insolvency is a situation where a school district is unable to meet its financial obligations, leading to a deficit general fund balance within three years or less. In this presentation, we will discuss the definition of financially insolvent school districts and the creation of a Financial Oversight Committee to address the issue.

# Financial Oversight - Financial Insolvency in School Districts: Definition and Oversight

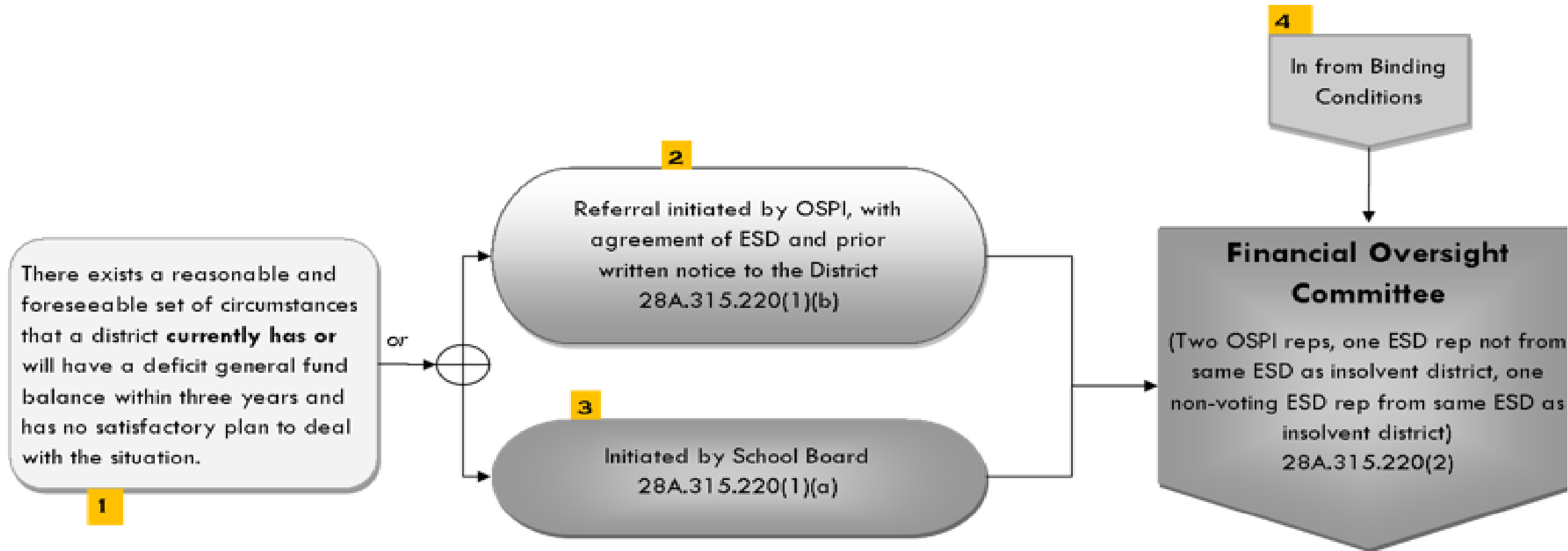
A school district is considered financially insolvent if it meets one of the following conditions:

- It has been on **binding conditions** pursuant to RCW 28A.505.110 for two consecutive fiscal school years and is unable to prepare a satisfactory financial plan.
- It has, or is reasonably foreseeable and likely to have, a deficit general fund balance within three years or less and is **unable to prepare a satisfactory financial plan.**
- A satisfactory financial plan is a plan approved by OSPI and the ESD that demonstrates a school district will have an adequate fund balance at the end of the plan period relying on currently available revenue streams provided by federal, state, or local resources or future revenue streams determined reasonably reliable by the ESD.

# Financial Oversight - Financial Oversight Committee

To address the financial insolvency of school districts, the Financial Oversight Committee has been created. This committee is composed of two representatives from OSPI and two representatives from the ESDs. One of the ESD representatives will be from an ESD other than where the financially insolvent district is located, and the other will be from the ESD where the financially insolvent district is located, but only serves in an advisory (non-decision-making) role.

# Paths to Financial Oversight



1. If there exists a reasonable and foreseeable set of circumstances that a district currently has or will have a deficit general fund balance within three years and has no satisfactory plan to address the situation, there are two options.
2. OSPI, after getting agreement from the district's ESD, and after notifying the district, may recommend the convening of the Financial Oversight Committee.
3. The district's school board may request that the Financial Oversight Committee be convened.
4. Alternatively, the Financial Oversight Committee may be convened if the district has been on binding conditions for two or more years and lacks a valid financial plan to exit binding conditions.

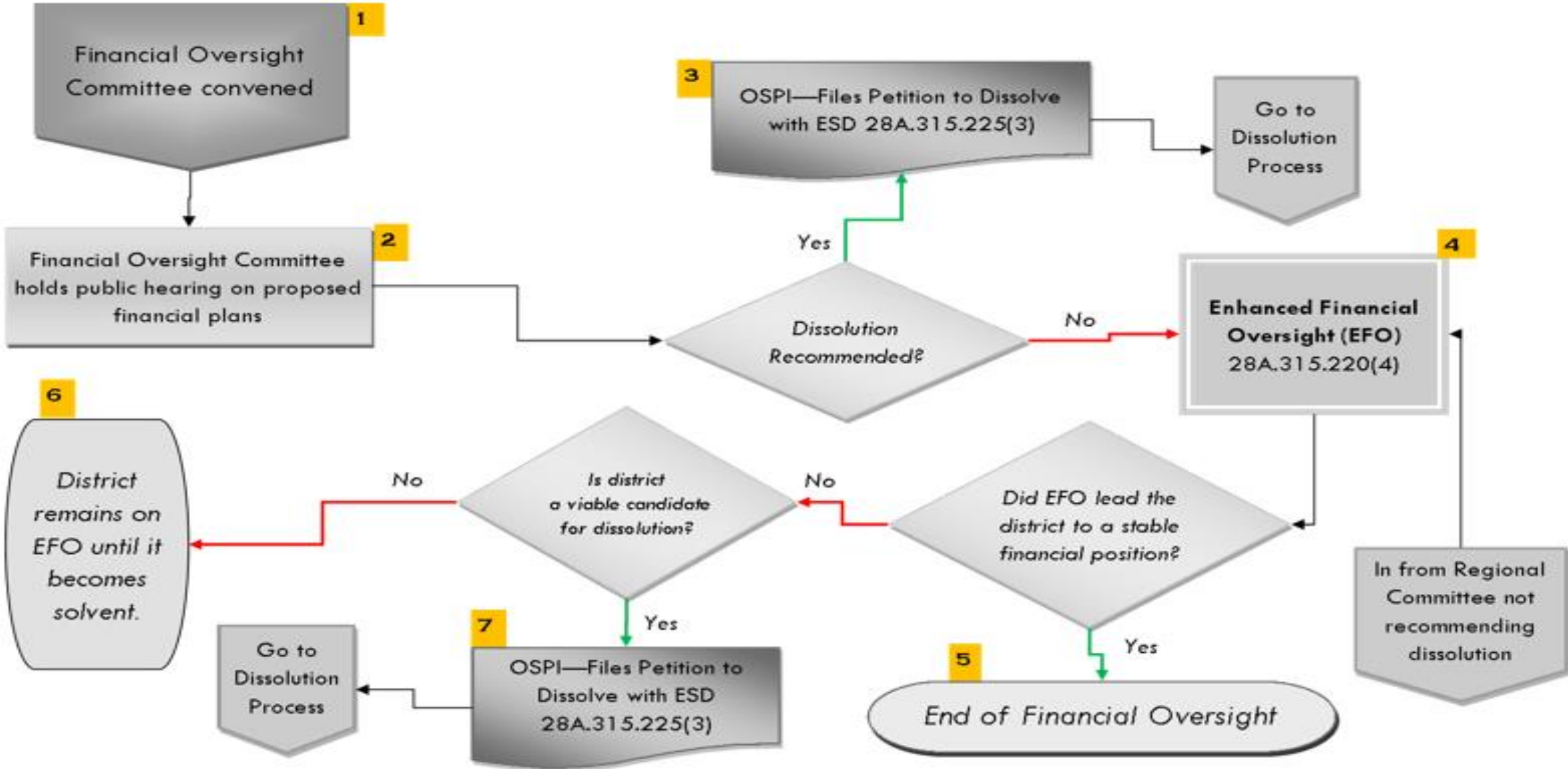
# Financial Oversight - Role of Financial Oversight Committee

The Financial Oversight Committee shall review the financial condition of a school district and recommend either:

- That an insolvent district enters Enhanced Financial Oversight.
- Dissolution, and a corresponding plan for such dissolution.
- If appropriate and necessary, the Financial Oversight Committee may solicit input and assistance from other government organizations.

# Financial Oversight

Figure 4: Financial Oversight



# Financial Oversight - Public Hearing

The Financial Oversight Committee shall hold at least one public hearing either in the insolvent school district or ESD to receive public input on financial plans that have been presented to return the district to a financially stable position. If the Committee feels that dissolution of the district is a valid option, it will also receive input on options for dissolution of the district at the public hearing.

# Financial Oversight - Enhanced Financial Oversight

Enhanced Financial Oversight (EFO) shall include, but not be limited to, the following types of actions:

- Appointment of a Special Administrator
- Hiring or other personnel actions
- Detailed review of the district's expenditures.
- Limitations on the district's ability to enter into new contracts.



# Summary

- Binding conditions have been in place and have been and are being used.
- Financial Oversight has not yet been used for a district in financial trouble.
- Enhanced Financial Oversight is state control over a district's finances.

# Binding Conditions WAC's and Resources

- Definitions – Revenue, Accrual Basis Expenditures, Cash Basis Expenditures, Appropriation, and Disbursements (WAC 392-123-047)
- Identification of Revenues to be Included in the Budget (WAC 392-123-055)
- Petition to Budget Receivables Collectable in Future Fiscal Periods (WAC 392-123-060)
- Non-Compliance with Binding Restrictions (WAC 392-123-065)

# Questions