

BOARD STUDY SESSION MEETING MINUTES

November 15, 2022

Call to Order

President Rivera called the Study Session of the Shoreline Board of Directors to order via Zoom at 4:01 p.m. on November 15, 2022.

Roll Call

Present: Rebeca Rivera, President; Emily Williams, Vice President; Sara Betnel, Director; Meghan Jernigan, Director; Sarah Cohen, Director

Absent: Luke Smith, Shorecrest Student Representative and Helen Murphy, Shorewood Student Representative

The following topic was discussed:

2022-23 Budget Planning Updates – General Fund

Presenters:

Jennifer A. Farmer, Assistant Superintendent, Business & Operations

Mark Spangenberg, Director of Finance & Business Services presented.

Once introduced, Ms. Farmer noted this is a continuation of building knowledge around our budget and working towards the Board's charge for the Budget Advisory Team.

Ms. Farmer began her presentation with some background information and a 2021-22 year-end preview. The ending fund balance is less than 1% of our budgeted expenditures, requiring additional work moving forward. The F196 year-end financial statements for 2021-22 were finalized and the ending fund balance for 2021-22 is \$12.2 million.

The Budget Advisory Team (BAT) has been formed. Committee information is available on Shoreline's website at:

<https://www.shorelineschools.org/Page/8578>

The ambitious schedule and timeline were shared with the group. With BAT, details will be shared as we move through the year in an effort to forecast the ending fund balance of \$1 million, and how it may improve or stay the same as we work through the year.

Prior to the January 9, 2023, meeting, BAT will look to the Board and Superintendent Reyes for the charge.

Ms. Farmer reviewed the continuous process of the budget cycle. Looking at the budget outlook, we are spending \$10.5 million beyond revenue this year and that is a net difference that must be tackled going forward. The ending fund balance is going to be lower than it has been in many years, and we no longer have a cushion to rely upon. If our expenditures stayed exactly the same into the 2022-23 year, we would have an ending fund balance that is negative. That is not allowed and the state will not let us operate in the red. Adjustments and decisions need to be made for Shoreline that will secure our future financial health.

Ms. Farmer reviewed the pandemic relief funding effect as well as the budgeted salary and benefit costs and the non-salary budget areas, noting some non-salary items are things we cannot change.

The fund balance trend was shared with a graph notating the ending fund balance which included the 2014-15 school year through 2022-23.

President Rivera asked how much of the fund balance decrease in 2018-19 was due to the Board decision to reduce the fund balance. Ms. Farmer responded that between 2018-19 and 2019-20 there was about a \$4 million decrease and reminded the Board that McCleary money came in and expenditures grew slowly the first year. Mr. Spangenberg also noted full day kindergarten began for all kids without tuition; a year before the state funded it.

What we need to decide together is what is the targeted ending fund balance beyond what is in policy. There are several items and options that could be part of that conversation.

Ms. Farmer noted BAT will begin the work of brainstorming potential reductions in January and asked the Board to provide detailed priorities and goals for the team's charge. The charge should consider the long-term view to set the framework for financial health going forward. More information will be provided in order for the Board to make that charge. BAT will need that charge to come from the Board in January so they can start their work. This likely is not a one-year process. There is concern about an Implicit Price Deflator (IPD) like last year, announced in April, which was a 5.5% increase that was not fully funded by the state. Two percent is more manageable, but when it jumped to 5.5%, that became very significant.

President Rivera noted since the charge for BAT is needed by January, the Board will need to carve out some time for these discussions. She asked Superintendent Reyes and Ms. Farmer how the Board can fit those discussions into December meetings in order to have an answer by January.

Ms. Farmer said on December 13 the Board will have more information. The philosophical discussion could begin now and continue in December. Maybe you're not picking a number, but maybe talking about what you want BAT to remember and focus on. Ms. Farmer offered some examples and ideas of what those may look like. These ideas could start as soon as possible and then the number could be discussed at any other meeting the Board may decide to have prior to giving the charge on January 9.

President Rivera thanked Ms. Farmer and found her reply helpful. She opened questions up to the Board and suggested they might start to identify some Board priorities to use to begin the discussion in December meetings.

Director Betnel asked about the BAT teams guiding principles and is that something the team is looking for from the Board?

Ms. Farmer explained BAT's guiding principles of how they operate as a group are under way. They really want direction from the Board on what the guiding principles are for the charge. It was clarified that the guiding principles needed from the Board are different than the operating and guiding principles of the committee, which are being called norms.

Director Cohen asked how the Board coalesces around those principles and whether or not there was a template. President Rivera said she'd like to have the Board work on getting some consensus around the charge and sees that taking place over a few meetings. She would like the Board to have clarity on what the Board, as a body, wants to support, as differentiated from individual voices on the Board, so we can be clear with BAT.

In regard to the charge, Director Cohen asked if Ms. Farmer was thinking primarily of a number, or was it a number in addition to guiding principles.

Ms. Farmer suggested it would be a bit of both, but there needs to be a number. She encouraged the group to let her and Mr. Spangenberg know if there are questions prior to the group doing the work getting to a number. If the Board is wondering about any of this information, let them know in advance and they can start to mold the December presentation around those questions, or answer them separately.

Director Betnel noted the conversation speaks to a question she had, saying there have been two years of unanticipated impacts and money being spent differently than we had understood when the budget was approved.

In honoring that, Ms. Farmer acknowledged that the Board takes the recommendation of District staff and there are reasons for overspending. Now, there is no way for us to continue to overspend. There is no cushion and she cannot recommend creating hope that it would be enough to do anything other than have a balanced budget next year. It is well known amongst the BAT already that we are here to reduce this year. In the BAT meeting there was discussion that this team continues forward into the future, and provides help with investments in times when we have more resources.

Director Cohen asked if we should be looking at a number, e.g. be at 4% fund balance by 2026, and would that be in the scope of the committee to receive as their charge. Or should we be thinking about trying to solve this problem this year with this budget? Ms. Farmer stated there needs to be significant movement this year. Because things shift and change, it would be reasonable for the Board to provide the 4% fund balance by 2026. We don't want to have it so narrow that it is impossible to do the work. Every single day we are trying to figure how we make this better, or get this restored faster. Going into two or three years, I don't want that concern on the Board or organization. We need to solve this as quickly as possible.

Director Jernigan asked if she was correct in her understanding that even if there are deep cuts next year, that's not to say that is the end of it. Ms. Farmer commented it is a large number to push through an organization in that amount of time and there may need to be additional adjustments going into a second year. We can't end in the red. She mentioned we will find out about regionalization and know what that resource is, also, the IPD was slated to be 2% and changed to 5.5% and we don't have a cushion for that. And it is a concern if enrollment was to drop.

Director Betnel asked how the updated numbers of last year's budget coming in better than anticipated and the increase in enrollment are being acclimated into the numbers into the existing picture. Ms. Farmer explained the budget doesn't change. Now that the books are closed, in December we will have seen three months of payroll, we know what the ending fund balance was, and here is where we think it looks like after one quarter. We can update that roughly monthly to see how much the budget is overexpended. The BAT knows there is not money the Business Office is holding on to. All funds are going into HR contracts for employees, departments and school leaders to buy supplies. That is why there will be fluctuations. We are relying upon the spending of all these parties. There is constant fluctuation and that is something you will get used to with regular review of the budget. It would be difficult to see this problem this early in the year. Mr. Spangenberg is preparing some forecasting already to show how this will evolve throughout the year and we can adjust as we see live information.

President Rivera asked if projections from farther down the road can be provided, like through 2026. Ms. Farmer said we can work on providing scenarios for how a four-year budget continues to evolve. You're already aware those changes get affected greatly by actual conditions, and they are just the best forecast at a moment in time. We can provide anything you like with the caveat that it's as accurate as it is at that moment.

It was confirmed when the Board is asked to provide a number, that number is the ending fund balance. The Board can also look at what needs to be extracted in next year's budget. Providing an ending balance target is what the Board has a policy about, but we can work with either.

Director Jernigan suggested that maybe what the group needs to decide right now is how to drill down into what that shared definition of the charge is, realizing each board member had a different understanding.

President Rivera said in the past it was better for the District to have one number as opposed to a range for the ending fund balance. Is it better to have a single number percentage of 4% or 4.5% vs. a range of 4% - 5%?

The District doesn't mind a range. A range provides opportunity to look at what can be done with funds if you are above the high number and also sets off alarms when at the low end of the range. Ms. Farmer noted there is a Board policy that is 4% - 5%. Is 5% the max you want us to carry, or are you fine with a bigger number? The \$7 million range is not a particularly robust fund balance.

Director Jernigan voiced caution around a cut so deep, landing well above 5%, while simultaneously saying this is a critical cut, without more discussion about the policy. What are the safeguards for making these cuts and then realizing we are at 9%? She expressed that was not her preference.

Ms. Farmer noted that is a great reminder from Director Jernigan, that next year we are looking at whatever your charge is and if the policy is waived again. What is your target for us, whether it is fund balance or reduction, we back into those numbers either direction. Longer term, what are the District's financial goals for being financially healthy as we start to emerge from this difficult time? You are correct, we don't want to cut so deep and harm the system to achieve 9%. That would not be a success.

President Rivera received clarification from Ms. Farmer that \$14 million is the difference between the current expenditure model, what we are currently spending in budget, versus what we would be spending to achieve that fund balance. The difference between revenues and expenditures is not that much, but we are already in the hole, so that is where that is from. President Rivera also noted, in creating the potential gradual increase in the fund balance would be to set a reasonable expenditure level, within our capacity, and allow us to increase the fund balance over time, creating a more stable environment.

Director Cohen is unclear on if the recommendation is to get back to the full desired fund balance next year, or to plan to get there or waive it again and try to get to a lower number. Can our charge include how we are going to step it back up over time to the full fund balance? Would that be a recommended approach? Understanding there needs to be cuts, where is the Board able to give guidance about how this process might spread over time and the recommendations around that? Or should we be aiming to have it all done?

Ms. Farmer shared that is a great discussion for the Board to have about how they feel about that theory. Getting to the full policy is going to be very hard, and it will be hard for BAT to reach. If the Board comes to the agreement that this happens over time and next year's fund balance goal is less than policy, that is an important part of the charge for the committee to hear from the Board.

Director Betnel inquired once the Board gives a charge which includes reductions or percent next year, is the BAT bringing back recommendations of how to accomplish that to the Board. Ms. Farmer said the team knows we need to constrict expenditures already and that has been established in the work done. They will provide a voice around priorities of things maintained and things they feel would be difficult but could be reduced during this time. That list is informed by the District and Superintendent, and then the Board.

Director Betnel asked about the survey the BAT is putting together and who they will survey. Ms. Farmer's vision is the larger community as it is one of multiple opportunities for community engagement. We'd like as much information and voice as we can get through this process, and that will also support the BAT. They are a new group who just got together and are probably concerned about the magnitude of decisions we are placing on them. Having feedback and support from both staff and community is critical.

President Rivera thought bringing questions to the administration individually would be helpful for the deeper discussion in future meetings. What do we want ending fund balance to be next year and what do we want to get to in 2026? This is part of the outlook on slide twelve of the presentation, and the Board is encouraged to think about this for a deeper discussion in the next meeting.

Director Cohen asked what it would look like to take a bottom-up approach. If we have this amount of budget, how would we fund our schools with the amount that we have, versus the model we have, and how do we cut it? We could get two different answers with that and we might find some efficiencies.

President Rivera appreciated the visioning process and thoughts expressed. She thanked the presenters and the Board and hopes everyone can ask questions, think about this and be ready to discuss in the next meeting.

Adjournment: 5:10 p.m.

Rebeca Rivera, School Board President

Attest: December 6, 2022

Dr. Susana Reyes, Secretary
Shoreline Board of Directors

All documents referenced in the minutes may be viewed in the Superintendent's Office during normal business hours.