

School District Binding Conditions and Financial Oversight

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Learning Objectives

Understand the definition and purpose of the following phases/processes for districts that cannot balance the current period with projected revenue and fund balance from that period:

Binding Conditions – how does a district enter/exit; what is it?

Financial Oversight

Enhanced Financial Oversight

School District Dissolution

School District Budgeting

Balanced Budget

- School districts must submit a balanced budget to OSPI annually August or September, depending on size.

Revenues to Expenditures

- Expected expenditures must not exceed expected revenues from all sources.

Future Revenues

- If budget is not balanced at the end of the fiscal period, the school district must request permission from OSPI to include future revenues to balance current year budget.

OSPI Approval

- Approval of the request for permission comes with Binding Conditions to improve financial condition.

Binding Conditions

- Binding Conditions are a set of financial goals or constraints the district must adhere to and/or achieve.



Examples of Initial Binding Conditions

- Here are some examples of initial Binding Conditions:
 - By November 30, 202X, the district's actual general fund balance must be greater than (\$5,000,000).
 - General fund revenue projections must exceed \$35,000,000 throughout the school year.
 - By January 31, 202X, the district's projected year-end general fund balance must be greater than \$0.
- 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 the school board.

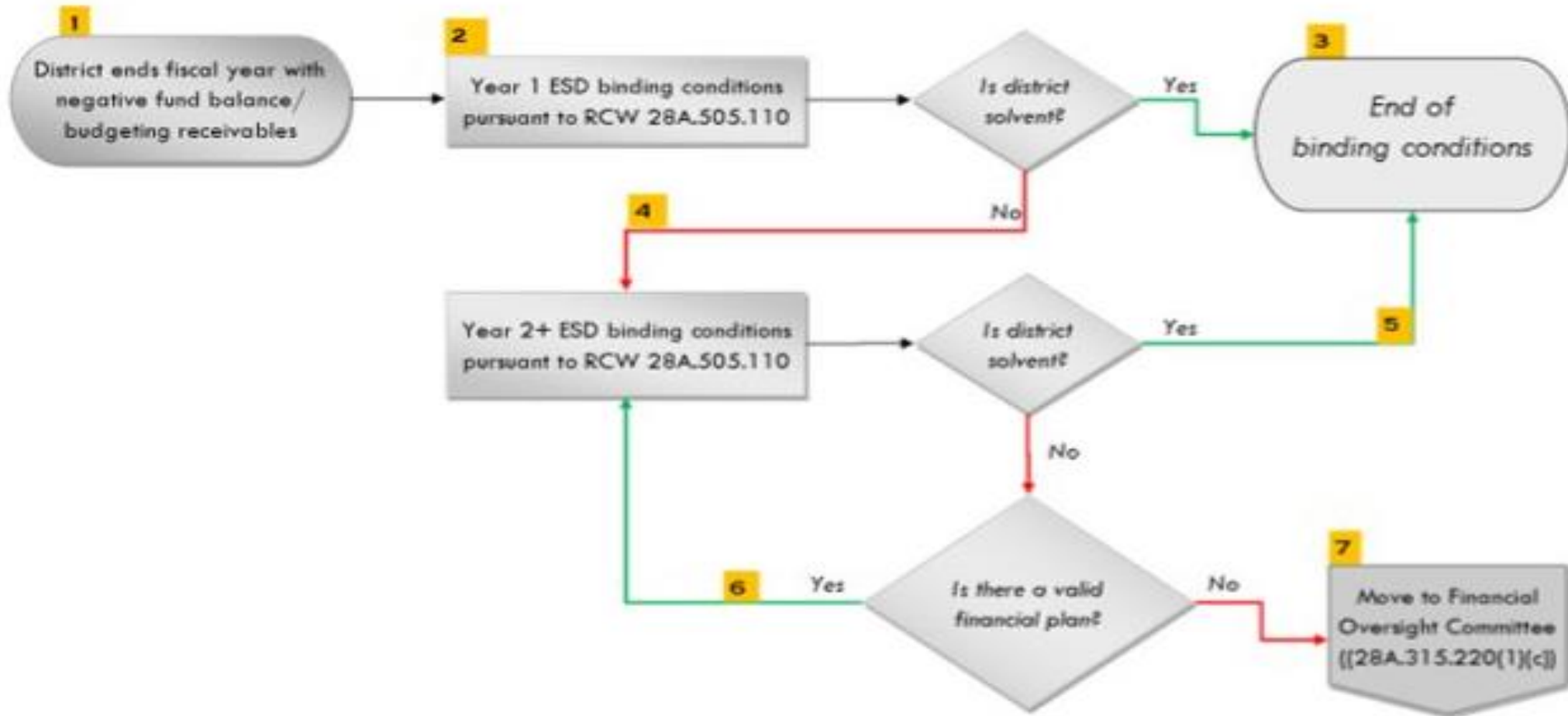
Example In Real Life

You need to payoff a \$25,000 credit card debt by next summer.

Which of the following are examples of initial Binding Conditions?

- Reduce your entertainment streaming subscriptions from five to one.
- Your balance must be less than \$10,000 by March 1, 2024.
- Limit your trips to Starbucks to once a week.
- Pay \$500 per month to your credit card.
- Half of the balance must be paid off by December 31, 2023.

Binding Conditions - Overview



Administration of Binding Conditions



ESD Fiscal Officer assigned as administrator for school district's ESD.

Administrator serves primarily as financial consult to the 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 of the districts resolve their issues within 1–2 years.

Less than 5 of these have had student enrollment of greater than 2,000 FTE.

We currently have FIVE districts on Binding Conditions.

Benefits of Binding Conditions



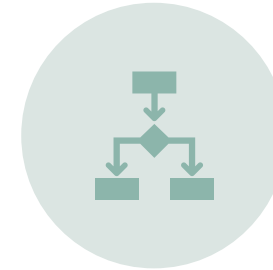
ALLOWS DISTRICTS TO
BORROW AGAINST
FUTURE STATE
APPORTIONMENT
PAYMENTS.



PROVIDES A PATH
TOWARDS FINANCIAL
IMPROVEMENT AND
STABILITY.



CONDITIONS CAN BE
AN IMPORTANT TOOL
TO HELP DISTRICTS
IMPROVE UPON THEIR
CURRENT FINANCIAL
SITUATION.



CREATES EXTERNAL
NON-SPECIFIC
PARAMETERS FOR
FINANCIAL DECISION
MAKING.



Beyond Binding Conditions



If a district is on Binding Conditions for two consecutive fiscal years (September to August), and is unable to prepare a satisfactory financial plan, the district enters Financial Oversight.



If a plan cannot be developed to correct a district's financial position, there must be a public hearing to discuss the possibility of dissolving the financially insolvent district. After the hearing, the district can be placed in Enhanced Financial Oversight.



Enhanced Financial Oversight requires the appointment of a special administrator, approval of hiring or other personnel actions, and a detailed review of a school district's expenditures.



Financial Oversight – Financial Insolvency

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.



The following material will discuss the definition of a financially insolvent school district and the formation of a Financial Oversight Committee to address the issue.

Financial Oversight – 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 school fiscal 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 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

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 – 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.

Enhanced Financial Oversight

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



Summary

- The definitions and process of Binding Conditions have been in place and utilized for several years.
- Financial Oversight has not yet been utilized for districts in financial trouble.
- Enhanced Financial Oversight is state control over a district's finances.

Current Situation

Five districts are under Binding Conditions agreements.

Three requests for emergency apportionment advances.

In recent history there has only been one school district dissolution (Vader SD became part of Castle Rock SD).

Based on the three hundred or so pages of summary in the three-inch binder in my office, the process from the initial fiscal distress to ultimate dissolution took four years (2004 to 2008)

Apportionment Advances

State allows districts to receive apportionment funds in advance of the schedule defined in statute.



This could be a cash flow solution for districts, should not be considered a budget balancing strategy.



Current law:

Requires apportionment advances to be repaid in full not later than June apportionment. (WAC)

Does not allow for advances in July or August. (WAC)

Does not allow advances to be outstanding into the next apportionment year (RCW).

Apportionment Advances – New Rule

Advance Month	Proposed Minimum Repayment Requirement		
	No Later Than June 30	July	August
October - May	50%	50%	
June	n/a	50%	50%
July	n/a	n/a	100%
August - September	Advances not granted during these months.		

- In no case can a district repay and then re-advance funds in subsequent months.
- [WAC 392-121-442](#): remains unchanged – districts still required to report and repay any interest earned on apportionment advance payments.

Binding Conditions WACs and Resources

- Definitions – Revenue, Accrual Basis Expenditures, Cash Basis Expenditures, Appropriation and Disbursements (WAC 392-123-047)
- Identification of Revenue 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 Conditions (Restrictions) (WAC 392-123-065)

Apportionment Advances RCWs and WACs

- Apportionment Schedule by State Superintendent
(RCW 28A.510.250)
- Emergency advance Payments – School district application
(WAC 392-121-436)
- Emergency advance Payments – Approval criteria
(WAC 392-121-438)
- Emergency advance Payments – Determination of amount
(WAC 392-121-440)
- Emergency advance Payments – Forfeiture of earnings on emergency advance. (WAC 392-121-442)
- Emergency advance Payments – Repayment of advances
(WAC 392-121-443)

Questions?

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