

Old Capitol Building  
PO Box 47200  
Olympia, WA 98504-7200



Washington Office of Superintendent of  
**PUBLIC INSTRUCTION**  
Chris Reykdal, Superintendent

ospi.k12.wa.us

April 29, 2024

Zachary Robbins, Superintendent  
Marysville School District  
4220 80th Street NE  
Marysville, WA 98270

Re: Marysville School District Financial Plan

Dear Superintendent Robbins and Board President Rinehardt:

On August 18, 2023, in accordance with Chapter 392-123 of the Washington Administrative Code (WAC), Northwest Educational District (NWESD) 189 and the Office of Superintendent of Public Instruction (OSPI) approved request #2023-11 from the Marysville School District's (MSD) Board of Directors to allow for the use of future receivables to balance its budget in exchange for agreeing to meet future fiscal benchmarks and provide specifics regarding the district's future financial plans. MSD agreed to additional oversight communication with OSPI and NWESD, as well as submitting a comprehensive financial plan by April 15, 2024, that shows the district can return to financial sustainability by the end of the 2025–26 school year.

The following summarizes the collaborative efforts of OSPI and NWESD with MSD regarding MSD's current financial situation and formalizes our response to the district's comprehensive financial plan.

### **OSPI and NWESD Oversight and Collaboration Efforts**

When the district agreed to binding conditions in August 2023, we hoped the district would be able to solve its financial situation on its own with OSPI being available to provide technical assistance when necessary. Since then, OSPI and NWESD have provided or offered to provide additional assistance in helping the district make the necessary financial decisions that would meet the conditions in the binding conditions letter.

The following outlines the types of outreaches or assistance between OSPI, NWESD, and MSD for the purposes of putting together a viable financial plan for the district:

1. In August 2023, the district was placed on binding conditions under WAC 392-123-060, while permission was granted for them to use revenue beyond the 2023–24 school year to balance their budget.

2. In fall 2023, OSPI and NWESD held two in-person meetings with the district in Marysville to discuss expectations and the evolving budget situation.
3. NWESD paid for a consultant to analyze the district's current budget situation and make observations. Some of these observations were elevated and discussed at one of the in-person meetings with the school district.
4. OSPI and NWESD held two quarterly check-in meetings with MSD to review the current fiscal situation to monitor progress in alignment with the binding conditions agreement. The third of these check-ins is scheduled for May 1.
5. In February 2024, OSPI paid for and assigned a special administrator to begin working with the school district. The special administrator was hired to provide technical assistance and guidance as needed to district staff and the superintendent of the school district, and to perform financial analysis and provide feedback to the district on their development of the financial plan required under the binding conditions agreement. The following is an overview of the special administrator's work with the district since February:
  - A. The special administrator began meetings with district staff on February 27.
  - B. The special administrator had weekly phone meetings with the superintendent of the district to provide feedback and discuss progress toward the April 15 deadline for plan submission.
  - C. The special administrator provided the district with supporting financial analysis consistent with the conclusions reached by the NWESD consultant.
  - D. On more than 15 separate occasions, the special administrator met virtually or by phone with district staff to review documents, discuss processes, advise on planning, and provide specific feedback on financial information and options. The special administrator also offered to come on-site to assist the district, but district staff did not believe that on-site assistance was needed.
6. OSPI and NWESD held a virtual check-in meeting on Monday, April 8 to preview the district's three-year financial plan and provide feedback on what needed to be completed before the April 15 deadline.

### **Concerns With Comprehensive Financial Plan**

As previously noted, the district was required to provide a comprehensive budget plan, inclusive of expenditures and revenues, enrollment trends, staffing levels, and a multi-year cash flow projection through the 2025–26 school year. The district provided the plan by the April 15 deadline, but it does not comply with the binding conditions agreement.

OSPI and NWESD's specific concerns are as follows:

1. Revenue projections include assuming the district will comply with required staffing ratios, but it requests OSPI waive the statutorily defined penalty associated with failing to adhere to K–3 class size compliance. The district must either confirm that they will have the staff necessary to qualify for the K–3 class size funding or exclude that revenue from their projections and revise the fund balance estimates for each year. Based on the \$1

million the district did not qualify for this year, we assume the district has overstated revenue estimates during the next two-year period by over \$2 million, significantly impacting the district's ending fund balance assumption.

2. Fund balance in future years includes funding sources that may not be used for the budget's purposes. For instance, the district shared that anticipated food service revenue for each year would exceed expenditures in the program by over \$500,000. It appears the district is relying on this excess to meet its fund balance requirement. The district should ensure that all program revenues restricted by program or have specific indirect limits and/or recovery percentages will be available at the end of the period to meet the fund balance requirement. The food service example alone could impact the district's ending fund balance assumption by as much as \$1 million without additional analysis or explanation.
3. Financial details presented to all parties must be consistent. The expenditure estimates provided to OSPI on April 15 identify \$4 million of reductions in the 2024–25 school year and an additional \$2.3 million of reductions in the 2025–26 school year. However, the detailed reductions provided to the school board on April 22 reflect \$6.8 million in proposed reductions in the 2024–25 school year. In addition, a detailed list previously provided to OSPI does not reconcile with either the \$4 million reduction or the amount provided to the school board.
4. The district openly admitted in their submission that their plan does not comply with the requirement of a 5% fund balance at the end of the 2025–26 school year. The submission suggests the ending fund balance will be \$6.145 million, falling short of the requirement by over \$3 million. This variance grows by another \$3 million if the concerns related to K–3 funding and restricted revenues are included.

### **Required Revisions to Comprehensive Financial Plan**

It is still our expectation that the district will meet its obligations under the binding conditions. To that end, OSPI is providing the district until May 15 to supply OSPI with a revised plan that meets all the requirements in the binding conditions agreement.

The revised plan must:

1. Include an updated cash flow document that reconciles to the budget assumptions outlined in the plan. For instance, the plan submitted by the district assumes an ending 2023–24 fund balance of (\$102,877). The cash flow projection in that same plan assumes a balance of (\$1,394,075) after accounting for the interfund loan. Please provide a reconciliation of ending cash balances reported and fund balances reported for the end of each fiscal year 2023–24, 2024–25, and 2025–26.
2. Ensure that it includes only revenue that the school district is legally eligible to receive based on their budget assumptions. The clearest and most evident example of this is the K–3 funding enhancement, but this also would include funding for counselors. Please provide the staffing ratios for these specific funding enhancements to ensure the district does not include revenues it does not plan to receive.

3. For grant funded programs and food service, the district should certify that it has reviewed the expenditures and revenues budgeted and all restricted funds are expected to be spent within the programs as legally allowed, including indirect costs. OSPI is concerned that the district may be relying on revenue that would be recovered if not spent within the program in accordance with applicable laws and regulations.
4. Evidence of insurance costs. The district indicated they would have preliminary data the week of April 15, 2024, and formal responses and estimates from providers in May 2024. We have not seen evidence of the preliminary data reflecting cost estimates. Please provide copies of the preliminary data and any final estimates of insurance costs.
5. Information on outstanding claims that the district anticipates having to pay directly. As it did with the letter the district provided to the State Auditor's Office, please have legal counsel disclose all significant claims that the district believes it is likely to, or reasonably possible to, need to pay within the next two years, including an estimate of those costs.
6. The final estimated fund balance for 2025–26 must meet the binding conditions agreement requirements.

### **Potential Next Step: Financial Oversight Committee**

If OSPI is not in receipt of a compliant plan built on reasonable assumptions by May 15, the State Superintendent will convene a Financial Oversight Committee in accordance with Revised Code of Washington (RCW) 28A.315.221. The initial task of the Committee will be to review the financial situation of the MSD and make recommendations on a path forward for financial stability. This review would involve a public hearing to receive public comment and discuss financial plans.

Based on the findings of the Financial Oversight Committee, the district may be subject to the follow types of restrictions or conditions:

1. Development of an alternative financial plan by the Financial Oversight Committee that complies with all binding conditions.
2. Appointment of a special administrator to oversee and carry out financial conditions imposed on the district.
3. Joint meetings of the Financial Oversight Committee and the Marysville School Board to communicate budget concerns and potential solutions to the school district and the public.
4. Review and approval of contracts and agreements prior to school board approval, inclusive of employment contracts.
5. In accordance with WAC 392-123-065, delayed release of a percentage of apportionment funds sufficient to meet the final fund balance requirement outlined as a binding condition over the 2024–25 and the 2025–26 school years. Funds would be released to the district as part of the final apportionment payment of the school year to restore an adequate fund balance compliant with the binding conditions agreement. While considering the amount of the delayed payment, OSPI will carefully balance fiscal considerations and the ability of the district to continue to provide services to students.

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OSPI would need clearer projections from the district regarding their projected ending fund balance position before the agency can determine this amount. OSPI assumes this delayed payment will be \$5 million or less.

### **Continued Collaboration**

Our goal is to continue our various efforts of communication and collaboration that will ultimately lead to local decisions that achieve financial sustainability. The successful conclusion of the financial disruption that resulted from the double levy failure can still be solved locally with student-focused decision-making reflective of local community values. OSPI and NWESD remain committed to working with you as you create a long-term viable financial plan that achieves student-focused financial stability.

We look forward to seeing a compliant financial plan by May 15.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tennille', with a long horizontal flourish extending to the right.

Tennille Jeffries-Simmons  
Chief of Staff