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## **MEMORANDUM**

To: Chris Reykdal, Superintendent of Public Instruction  
From: T.J. Kelly, Chief Financial Officer  
Date: August 26, 2024  
Re: Recommendations of Financial Oversight Committee (FOC)

Since August 2023, due to projected budgetary shortfalls, the Marysville School District (MSD) has been on binding conditions, pursuant to Revised Code of Washington (RCW) 28A.505.110 and Washington Administrative Code (WAC) 392-123-060. Over the last year OSPI and staff from the Northwest Educational Services District 189 provided oversight and counsel regarding local decisions with the goal of setting the district on a path to return to financial stability. In June 2024, in accordance with RCW 28A.315.221, you determined MSD was financially insolvent and convened the financial oversight committee (FOC)<sup>1</sup>. You tasked the committee with reviewing the district's financial conditions, their budget for the 2024–25 school year, and their projected ability to comply with conditions set out by the state. The following represents the FOC's findings and recommendations.

### **Systemic Challenges**

As of the date of this memo, MSD has not produced a budget for the 2024–25 school year that the FOC can confidently assess. This is due, in part, to the following systemic issues:

- The district has experienced staff turnover in key fiscal and human resources positions. The new staff members have no previous K–12 experience.
- The district currently lacks the process, structure, and tools needed to effectively execute and routinely monitor a budget plan.
- Due to the fiscal staff prioritizing efforts towards identifying issues with the 2023-24 school year budget for much of the fall, staff capacity was limited when developing a cohesive budget plan for the 2024–25 school year.
- Rather than prioritizing solving the budget deficit, the district continues to expend energy on, and publicly reference, state funding formulas, inflation, and levy equalization formulas as systemic challenges preventing progress.

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<sup>1</sup> The following individuals were appointed as members of the FOC on July 2, 2024: T.J. Kelly, Chief Financial Officer, OSPI; Ramon Alvarez, Chief Human Resources Officer, OSPI; Cassidy Probert, Assistant Superintendent, ESD 101; Lisa Matthew, Assistant Superintendent, NWESD 189 (nonvoting).

## **Fiscal Challenges**

While the district has responded to FOC data requests regarding the development and implementation of their 2024–25 school year budget, the FOC still needs clarity on several key budget issues before we determine if the budget complies with the binding conditions. Below are specific questions regarding content areas of concern with the 2024–25 budget as proposed by the district:

- The district's replacement insurance policy appears to provide less coverage at a higher cost than the original \$600,000 increase that was planned in the budget made public and shared with the FOC on July 10.
- Inability to verify that staff who are anticipated to begin the school year as employees are accurately reflected in the school district's 2024–25 F-195 budget submission.
- Amounts budgeted for Materials, Supplies, and Operating Costs (MSOC) do not align with projected actual MSOC expenditures for the 2023–24 school year after adjusting for inflation and enrollment fluctuations.
- The district continues to use apportionment advances and/or borrowing from other district non-General Fund sources to solve cash flow challenges during the next two school years.

Due to these issues, the cash flow projections for the 2024–25 and 2025–26 school years are not reliable.

## **Community Feedback**

The FOC has been monitoring community feedback via email since presenting at the August 5 board meeting. Over forty community members have provided comments on the current situation and challenges facing the district from a fiscal and operational perspective. The general themes of the feedback include but are not limited to:

- Lack of confidence in school district leadership.
- Declining trust between the district and community members.
- Suggesting the OSPI move to enhance financial oversight as soon as possible.
- Inability of the district to explain financial and operational decisions.
- Families indicating their children will be withdrawing from the district due to the current situation.
- Desire that the state immediately become more involved in the day-to-day decision making of the district's operations.

These themes were taken into consideration by the FOC in the process of forming recommendations to Superintendent Reykdal on next steps.

### **Financial Oversight Committee Recommendation**

After meeting seven times, including once at Marysville School District for a public hearing and public comment on the FOC's findings, the FOC makes the following recommendations:

- Prior to September 1, 2024, MSD should be placed on enhanced financial oversight to reduce the risk of dissolution due to insolvency, pursuant to RCW 28A.315.221.
- The Superintendent of Public Instruction should appoint a special administrator to oversee and carry out financial conditions imposed on the district.
- The FOC should continue to meet and be permitted to work with the special administrator and the school district to answer outstanding questions regarding their current budget.
- The district should submit a revised budget to OSPI no later than October 15, 2024. The budget should address all the questions from the FOC and establish a common understanding of the district's current financial position.
- The FOC should develop an alternative financial plan that returns the district to financial sustainability by the end of the 2025–26 school year. The alternate plan would be subject to a public hearing. Public feedback will be considered prior to a formal decision to implement the FOC financial plan rather than the original adopted MSD budget.

### **Potential Actions for Immediate Implementation**

The FOC recommends Superintendent Reykdal require that the district adhere expenditure restrictions starting September 1, 2024, including, but not limited to, the following:

- Initiate a district-wide hiring freeze.
- Initiate a freeze on all school building budgets.
- No new stipends for administrative staff until the district exits binding conditions.
- Initiate a freeze on all employee awards and incentives not currently outlined in collective bargaining agreements.
- No state or local funded travel for administrative staff.
- No state or local funded travel for school board members.
- Postpone any planned curriculum adoption until the district exits binding conditions.
- No new or renewal of contractual agreements with vendors more than \$25,000 without prior approval of the FOC or special administrator.
- No new technology purchases for students or staff.
- Class size overage expenditures for 2024–25 must not exceed the amount spent on this purpose for the 2023–24 school year.
- No state funded expenditures for student travel.
- No winter or spring athletic sessions at any level.

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If any of the above are already implemented and in practice by the district, the FOC and special administrator require evidence of the business processes behind the implementation of the specific restriction.

The FOC also requires, no later than September 10, the district to provide a list of all unrepresented employees under contract for the 2024–25 school year, their budgeted salaries and benefits, and the district must identify any employee separately that received a pay increase from the 2023–24 school year to the 2024–25 school year equal to or greater than 7.4% which is two times the legislatively passed inflationary adjustment of 3.7%.

Should you have any further questions, please do not hesitate to contact me. Thank you to the members of the FOC for their time and dedication and thank you for trusting us with this unprecedented step for K–12 finance in Washington state.

Sincerely,

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

T.J. Kelly  
Chief Financial Officer

Cc: Ramon Alvarez, Chief Human Resources Officer, OSPI  
Kassidy Probert, Assistant Superintendent, ESD 101  
Lisa Matthews, Assistant Superintendent, NWESD 189