



Proactive and Solutions-Oriented Support for School District Financial Health

2025–27 Operating Budget Decision Package

RECOMMENDATION SUMMARY

The Office of Superintendent of Public Instruction (OSPI) monitors the financial health of school districts. OSPI’s authority to dictate or approve specific school district financial actions increases as a district’s financial situation worsens; however, OSPI does not have staff capacity or dedicated resources to support school districts through these hardships and processes. OSPI requests funding for two additional staff positions and resources to provide proactive and solutions-oriented regional and local technical assistance. These resources will support improved school district financial health statewide and help prevent districts from entering into binding conditions with the state as a result of fiscal challenges.

FISCAL DETAIL

Operating Expenditures	FY 2026	FY 2027	FY 2028	FY 2029
Fund 001-01 (program 010)	\$1,172,000	\$1,164,000	\$1,181,000	\$1,198,000
Total Expenditures	\$1,172,000	\$1,164,000	\$1,181,000	\$1,198,000
Biennial Totals	\$2,336,000		\$2,379,000	
Staffing	FY 2026	FY 2027	FY 2028	FY 2029
FTEs	2.0	2.0	2.0	2.0
Average Annual	2.0		2.0	
Object of Expenditure	FY 2026	FY 2027	FY 2028	FY 2029
Obj. A	\$236,000	\$236,000	\$236,000	\$236,000
Obj. B	\$106,000	\$106,000	\$106,000	\$106,000
Obj. C	\$779,000	\$794,000	\$811,000	\$828,000
Obj. E	\$14,000	\$14,000	\$14,000	\$14,000
Obj. G	\$14,000	\$14,000	\$14,000	\$14,000
Obj. J	\$23,000	\$0.00	\$0.00	\$0.00
Revenue	FY 2026	FY 2027	FY 2028	FY 2029
Fund 001	\$0.00	\$0.00	\$0.00	\$0.00
Total Revenue	\$0.00	\$0.00	\$0.00	\$0.00
Biennial Totals	\$0.00		\$0.00	

PACKAGE DESCRIPTION

School funding in Washington is based on student enrollment and driven by per-student funding allocations through the state prototypical funding model. As schools confront the rising costs of goods and services, lower birthrates in the population at-large resulting in decreases in student enrollment, and the loss of local levy revenue in many communities, it is no surprise that schools today are facing unprecedented financial challenges.

What is the problem, opportunity, or priority you are addressing with the request?

Currently, OSPI monitors the financial health of school districts using tools such as a financial health indicators model, monitoring election results for local levy passages or failures, and reviewing budget and financial statements submitted annually by school districts. OSPI's first choice and preference is for financial challenges to be resolved locally, as local leaders are best positioned to make the decisions that impact their students, families, educators, staff, and communities at large. OSPI's authority to dictate or approve specific school district financial actions increases as the district's financial situation worsens.

At the start of each school year, school districts must submit a balanced budget to OSPI. If a district's anticipated expenditures exceed their revenue sources, the district must request permission from OSPI to utilize future revenues to balance their budget. Permission to utilize future revenues will not be granted by OSPI until the district agrees to a set of binding conditions that will improve the district's overall financial health. The current process, which is defined in state law, engages OSPI too late. There is a need for more proactive state and regional supports to identify risk factors and work collaboratively with local leaders to maintain strong financial health and to prevent school districts from entering binding conditions.

What is your proposal?

This proposal requests funding for two full-time equivalent (FTE) staff within OSPI to serve as special administrators working collaboratively with regional educational service districts (ESDs) and local school districts to monitor district budgets and financial risk factors, and to develop proactive solutions. This request also supports funding to contract with staff who are positioned regionally across the state and working in close partnership with ESDs and school district leadership to provide monitoring, technical assistance, and support to school districts in poor financial health or who are at risk of financial insolvency.

The new OSPI staff will monitor school districts who are experiencing signs of financial risk, represent OSPI as part of the Financial Oversight Committee (FOC) in accordance with RCW 28A.315.221, and support districts utilizing interfund loans or apportionment advances to offset issues with cashflow. The additional FTE hired under this request will provide hands-on technical assistance related to cashflow, budget driver projections, future budget plans, and other pertinent information relevant to district finances.

OSPI has not requested funding for financial oversight in the past; however, as more districts struggle to maintain financial solvency due to multiple factors beyond their immediate control, such as inflation, post-pandemic enrollment patterns, or local support of levy funds, the agency

believes now is the appropriate time to request funding for much-needed additional proactive oversight. The overall goal of this request is to prevent school districts from entering binding conditions in the first place.

How is your proposal impacting equity in the state?

1. Local voter-approved levies (when permitted) are the only mechanism that school districts can use to provide critical enrichment activities within their district. If districts do not maintain their financial health, it can deteriorate voter confidence and put levies at risk; the impacts of which are felt inequitable across the state.
2. OSPI regularly meets with various stakeholders to identify and elevate issues that improve student outcomes and respond to public schools throughout Washington. This proposal has the support of school district leaders statewide. Districts do not wish to experience financial difficulties that put local decision-making at risk, and funding this proposal would help avoid those difficulties.
3. Funding this proposal will prevent further cost-driven inequities by providing the system with additional support for financially distressed school districts, rather than having a district already in financial difficulty spend more money on experienced support.
4. If this need is not addressed, the financial condition of certain districts may continue to deteriorate without proactive support from the state or their regional leadership, which could have a greater adverse effect on communities in need.

What are you purchasing and how does it solve the problem?

OSPI is requesting funding for 2.0 full-time equivalent (FTE) staff at OSPI to serve as school district finance special administrators. These positions will require extensive knowledge and deep understanding of state and local K–12 funding models, school district budgeting processes, and accounting. These staff will review district financial statements more regularly, monitor School District Financial Health Indicators,¹ proactively contact school district business officers to understand future implications, and support early planning to avoid financial distress.

OSPI also requests funding equivalent to 5.0 FTE that will be deployed regionally to support the areas of the state with the most need. These contracted staff will develop and deploy state and regional training centered around the current needs and challenges impacting district budgets statewide. Funds will also support financial and reporting training for school business officers statewide, building on programs and resources that exist currently but are not consistent across the state.

These investments will improve transparency in school district budgeting; increase responsiveness to turnover in school district business officer staff; address and respond to state and local financial risks more quickly and efficiently; ensure students have access to their full program of basic education; and support school districts in ensuring that all federal, state, and local resources provided for education are expended meaningfully and responsibly.

¹Office of Superintendent of Public Instruction. (viewed 9 September, 2024). https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fospi.k12.wa.us%2Fsites%2Fdefault%2Ffiles%2F2024-02%2Ffinancial_indicators_through_sy2023_for-posting.xlsx&wdOrigin=BROWSELINK

What alternatives did you explore and why was this option chosen?

Failure to fund these additional staff and resources will mean districts continue to face increased risks in a particularly challenging fiscal environment, exacerbated as administrators and budget staff come and go, without the state having the capacity to provide the ongoing monitoring and oversight necessary to prevent or guide districts out of binding conditions. The state's ability to improve individual district finances and ensure transparency will also be severely limited.

What resources does the agency already have that are dedicated to this purpose?

OSPI assists school districts with budgeting matters, but the agency does not have a position dedicated to helping districts in poor financial health.

ASSUMPTIONS AND CALCULATIONS

Expansion, reduction, elimination or alteration of a current program or service:

This is not an expansion, reduction, elimination, or alternation of a current program or service. These funds will be used to provide resources to fund statewide and regionally assigned staff to assist with districts experiencing financial difficulty.

Detailed assumptions and calculations:

OSPI proposes funding for a contract with which we can procure regionally assigned school district fiscal experts and 2.0 full-time equivalent staff at the agency to monitor the financial health of school districts.

The total funding request for these contracting services by fiscal year is as follows:

- Fiscal year 2026: \$779,000
- Fiscal year 2027: \$794,000
- Fiscal year 2028: \$811,000
- Fiscal year 2029: \$828,000

These values were based upon the certificated instructional staff (CIS) allocation in the ESD Core funding model.

The OSPI staff needed for this effort are based on the salary and benefit level of a Director 3 level position. OSPI selected this level of staff because we will likely be competing with school districts to find individuals that have a comprehensive understanding of school finance laws, budgeting procedures, collective bargaining, and other key fiscal rules and functions governing school districts.

The total funding request for OSPI staff to achieve these objectives by fiscal year area as follows:

- Fiscal year 2026: \$393,000
- Fiscal year 2027: \$370,000
- Fiscal year 2028: \$370,000
- Fiscal year 2029: \$370,000

Workforce assumptions:

OSPI would hire 2.0 FTE staff at the Director 3 level with a portion of these funds. Additional support for maintaining school district financial sustainability would be procured via contract, not through OSPI employees.

Historical funding:

None.

Fiscal Year 2026

- Headcount = 0 (OSPI cannot project enrollment in future fiscally challenged districts)
- Total Funds = \$0
- Near General Fund = \$0
- Other Funds = \$0

Fiscal Year 2027

- Headcount = 0 (OSPI cannot project enrollment in future fiscally challenged districts)
- Total Funds = \$0
- Near General Fund = \$0
- Other Funds = \$0

STRATEGIC AND PERFORMANCE OUTCOMES

Strategic framework:

This proposal aligns with the Governor's Results Washington Goal #1: World-class education. It also aligns with Results Washington Goal# 5: Efficient, effective and accountable government. In addition, this request will allow OSPI to make progress on Superintendent Reykdal's Strategic Goal #4: A Committed, Unified, and Customer-Focused OSPI.

Performance outcomes:

Funding this proposal will provide greater transparency into school district finances for school districts at high risk of entering binding conditions and will help ensure that district funds are used appropriately to best serve students.

OTHER COLLATERAL CONNECTIONS

Intergovernmental:

None.

Stakeholder impacts:

This proposal will impact school districts. We anticipate support from education associations and districts.

Legal or administrative mandates:

None.

Changes from current law:

None.

State workforce impacts:

None.

State facilities impacts:

None.

Puget Sound recovery:

N/A

Governor's salmon strategy:

N/A