

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



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

k12.wa.us

January 10, 2025

Wyeth Jessee, Superintendent  
Shelton School District  
700 South First Street  
Shelton, WA 98584

Re: Approval of Request to Budget Future Receivables with Binding Conditions

Dear Superintendent Jessee:

In accordance with Chapter 392-123 WAC, Educational Service District (ESD) 113 and the Office of Superintendent of Public Instruction (OSPI) have completed our review of Shelton School District's (District) financial statement for the 2023–24 school year. The Shelton School Board acknowledges that the District reflected a negative ending General Fund balance of (\$2,356,092) in their 2023–24 financial statement (F-196).

The 2023–24 school year financial statement is accepted, and the 2024–25 school year budget and four-year budget projection are approved subject to the district being placed on Binding Conditions. The Binding Conditions outlined below are intended to give OSPI and ESD 113 an opportunity to more closely review and potentially recommend school district decisions related to their current financial condition. The goal is to ensure the district restores a healthy financial position and exists Binding Conditions by the end of the 2026–27 school year. If progress towards a healthy financial position is not clearly evidenced within that time frame, the District may be referred to the Financial Oversight Committee (FOC). If Enhanced Financial Oversight (EFO) is required, the FOC can exercise more aggressive financial remedies up to and including school district dissolution.

1. The District's Superintendent and Chief Financial Officer will meet with OSPI and the ESD quarterly to review the District's current financial status. This will include a review of budgeted to actual expenditures and revenues, enrollment trends, current staffing levels, and current multi-year cash flow projections. These meetings will be scheduled no later than January 30, 2025, for the remainder of the 2025 calendar year.

2. While in Binding Conditions, the District will submit monthly Budget Status Reports, as presented to the School Board of Directors, to OSPI and the ESD within one week of the board meeting(s) and no later than 25 days after the prior month ends.
3. The School Board of Directors will approve a plan created in coordination with the District Chief Financial Officer and any other necessary staff to address fiscal stabilization requirements and submit the plan to OSPI and the ESD by April 15, 2025.
4. The overall actual ending General Fund balance for the 2024–25 school year, reported in the F-196 as of August 31, 2025, must be positive.
5. The overall actual ending General Fund balance for the 2025–26 school year, reported in the F-196 as of August 31, 2026, must be positive and the unassigned balance must also be positive.
6. The actual General Fund cash balance in the monthly financial statements as of February 28, 2027, must not be less than 2% of budgeted General Fund expenditures for the 2026–27 school year.
7. The actual ending General Fund balance reported in the F-196 as of August 31, 2027, must be greater than or equal to 4% of the budgeted General Fund expenditures for the 2026–27 school year.

If any of the above conditions are not met, the District will continue to operate under Binding Conditions. OSPI and ESD 113 will continuously review the District's fiscal projections and adherence to the stated conditions above. We, collectively, reserve the right to update any of the conditions if the District's financial situation changes significantly from what is currently projected.

Per RCW 28A.315.221, the Superintendent of Public Instruction will convene a Financial Oversight Committee when a school district has been on Binding Conditions pursuant to RCW 28A.505.110 for two consecutive years and does not have a satisfactory financial plan. The Financial Oversight Committee is responsible for reviewing the financial condition of a financially insolvent school district which could lead to dissolution of the financially insolvent school district.

## Background

The District has experienced several impacts to their finances. As with most other school districts, local funds revenue has declined (about \$900 per student since 2018, inflation adjusted); and the District is spending more on special education, transportation, substitutes, and basic supplies than is funded by the state (about \$800 per student combined). Further, enrollment is lower than prior to the pandemic, and federal pandemic relief funds have expired.

Related, the District's central office staffing has experienced turnover, impairing regular administrative tasks and the District's ability to accurately project and control costs, including:

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- During the vacancies, invoices were not carried over in the accounting system, and the District did not have a full assessment of its financial condition.
- The District has carried over relatively high percentages of categorical and restricted funds, rather than spending these funds where possible and preserving flexible funding. Therefore, the restricted funds (positive fund balance) have "loaned" resources to the flexible funds (negative fund balance). This narrows the allowable uses of the District's future spending and prolongs the District's financial distress until it can accumulate an ending fund balance that is allowable to use for any purpose or emergent need.

In response to these realities, the District spent down its fund balance and took action to reduce costs and slow the increase in costs. Unfortunately, actual operating expenditures continue to remain higher than revenue.

The lack of fund balance, the declining local funds (levy and State Levy Equalization funds), and factors related to restricted vs. unrestricted fund balance, all indicate a significant effort will be needed to reduce expenditures and build back flexible fund balance.

Sincerely,



T.J. Kelly  
Chief Financial Officer  
Office of Superintendent of Public Instruction

Dr. Flip Herndon  
Superintendent  
Educational Service District 113

### **Acknowledgement of Acceptance of Binding Conditions**

**X**

School District Superintendent

**X**

School Board President