



SCHOOL BOARD ACTION REPORT

DATE: April 10, 2017
FROM: Dr. Larry Nyland, Superintendent
LEAD STAFF: JoLynn Berge, Asst Superintendent for Business & Finance,
jdberge@seattleschools.org;

For Introduction: May 3, 2017
For Action: May 17, 2017

1. TITLE

Amending Policy No. 6022, Economic Stabilization Account (ESA)

2. PURPOSE

This Board Action Report revises Board Policy No. 6022, Economic Stabilization Account (ESA), in order to simplify the policy to better align with other state school district policies and to allow flexibility for the school board usage of district funds.

3. RECOMMENDED MOTION

I move that the School Board amend Board Policy No. 6022, Economic Stabilization Account, as attached to the Board Action Report.

4. BACKGROUND INFORMATION

- a. As written, the current policy is overly complex and restricts the School Board to using the ESA only if one of five limited situations occur. None of the situations currently listed in the policy allow the School Board to use the ESA to help address the budget shortfall such as is anticipated for the 2017-18 school year. The current policy also does not include a requirement to have a plan to rebuild the fund if it is used. By simplifying the policy, maintaining the requirement for a Board Resolution for any usage and adding a requirement for a repayment plan, the policy will provide for greater oversight and more flexibility.

The revisions make two primary changes to the policy. First, changing the basis on which the amount committed to the fund balance is calculated from "... of the budgeted non-grant expenditures for the upcoming fiscal year" to "of the actual general fund expenditures of the most recently completed fiscal year." This change better aligns with other Washington State School District policies, more closely matches district financial usages, increases the transparency surrounding the calculation and improves the accuracy of budgeting the annual contribution amount.

Second, the criteria for utilizing ESA are eliminated. This will allow the flexibility to utilize the ESA for the 2017-18 budget. After consulting with Legal, it was determined that the policy needs to be revised first and then the Resolution for usage of the ESA as part of the 2017-18 school year would follow, after all amounts are finalized. Board

Directors were made aware of the need to change the policy as part of the November 22, 2016 Budget Work Session.

b. Alternatives

1. The district can make no change to the allowable policy usage now, and revisit the proposed budget reductions for the 2017-18 school year using a different funding source. This is not recommended because it would not allow for use of the ESA in upcoming budget and increase the likelihood of the potential disruption to schools and other programs that would need to provide other funding reductions to balance the budget.
2. The district could make no change to how the account is calculated and leave the current process of basing the calculation on a future year and only the non-grant portion of the General Fund. This is not recommended as it makes both calculating the fund balance difficult as well as making Seattle's fund balance methodology not comparable to other large Washington School District's for comparison purposes, and is the current calculation transparent for our stakeholders.

c. Research

Review of other large Washington school districts including Spokane, Tacoma, and Kent show that only Seattle's policy is based on a portion of the General Fund, specifically non-grant expenditures, and is forward looking instead of based on the most recently completed fiscal year.

5. FISCAL IMPACT/REVENUE SOURCE

Fiscal impact to this action will be undetermined until development of the 2017-18 budget is finalized. As part of the 2017-18 budget plan, under current policy we estimated the ESA would have a balance of \$23,725,000 at 3.25% of the 2017-18 non-grant budget. Under the proposed changes to the policy, the ESA would now have a balance of \$23,075,000, a \$650,000 difference. This would reduce the amount of 2016-17 underspend required to be set aside for this purpose.

The revenue source for this motion is the General Fund.

Expenditure: One-time Annual Multi-Year N/A

Revenue: One-time Annual Multi-Year N/A

6. COMMUNITY ENGAGEMENT

With guidance from the District's Community Engagement tool, this action was determined to merit the following tier of community engagement:

Not applicable

Tier 1: Inform

Tier 2: Consult/Involve

Tier 3: Collaborate

Through multiple budget discussions and meetings with our community, labor partners, employees and senior leaders, it was concluded that using a portion of the District's Economic Stabilization Account was critical to protecting school and student support programs during the current legislative funding crisis. The policy on the Economic Stabilization Account as currently written does not allow for this usage.

7. EQUITY ANALYSIS

Restricting the usage of the Economic Stabilization Account to only situations where either financial errors occur or for one time investments or emergency expenditures for life, health or public safety reasons prevents the School Board from using funds to protect student services from an economic crisis such as is anticipated for the 2017-18 school year. In years of budget reductions, typically core services must be protected and extra resources for high need students have to be reduced or eliminated. Using the Economic Stabilization Account to protect student services allows the district to maintain programs that focus on student needs.

8. STUDENT BENEFIT

Modifying the policy to allow greater flexibility in its usage allows the School Board to better shield students and direct student services from economic uncertainty. Stabilizing district resources is the primary purpose of the policy.

9. WHY BOARD ACTION IS NECESSARY

Amount of contract initial value or contract amendment exceeds \$250,000 (Policy No. 6220)

Amount of grant exceeds \$250,000 in a single fiscal year (Policy No. 6114)

Adopting, amending, or repealing a Board policy

Formally accepting the completion of a public works project and closing out the contract

Legal requirement for the School Board to take action on this matter

Board Policy No. _____, [TITLE], provides the Board shall approve this item

Other: _____

10. POLICY IMPLICATION

This motion recommends changing Board Policy No. 6022, Economic Stabilization Account.

11. BOARD COMMITTEE RECOMMENDATION


This motion was discussed at the Audit and Finance Committee meeting on April 18, 2017. The Committee reviewed the motion and move this item forward to the full Board with a recommendation for consideration as amended.

12. TIMELINE FOR IMPLEMENTATION

Upon approval of this motion, the new policy will be implemented and a board resolution requesting usage of the fund will be brought forward for the School Board's consideration. Introduction of a resolution authorizing use of the Economic Stabilization Account is necessary before the 2017-18 budget planning is finalized. The resolution is anticipated for Intro on June 7, 2017 with Action on June 28, 2017.

13. ATTACHMENTS

- Board Policy No. 6022, Economic Stabilization Account – clean (for approval)
- Board Policy No. 6022, Economic Stabilization Account – redline (for reference)

	<p>ECONOMIC STABILIZATION ACCOUNT</p>	<p>Policy No. 6022</p> <p>Page 1 of 1</p>
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It is the policy of the Seattle School Board to maintain an economic stabilization account in the general fund to help protect against unforeseen circumstances.

The District created the Economic Stabilization Account (ESA) to fund activities that would otherwise be reduced in scope, suspended or eliminated due to unanticipated shortfalls in the General Fund revenues. Any use of the ESA shall be accompanied with a resolution approved by the School Board.

In an effort to provide fiscal stability for the District and allow District Administrators to apply fiscal prudence in managing the budgetary conditions of the District, a desired stabilization amount is established. The amounts for the desired stabilization account shall be specifically identified in a separate account code in the General Fund. The amounts committed in the Economic Stabilization Account (ESA) are to be used only for the purposed defined in this policy.

The School Board shall annually adopt a specific stabilization account percentage for the upcoming fiscal year. The ESA shall be informed by the economic climate and recommended between 3 and 5 percent of the total actual general fund expenditures of the most recently completed fiscal year.

In the event the ESA balance falls below the recommended minimum level of 3%, a plan to replenish the fund will be developed and provided with the resolution authorizing use of the fund. The repayment plan must be reviewed annually as part of the budget process until the funds are fully restored.

The Superintendent is granted the authority to establish procedures in order to implement this policy.

Adopted: [DATE]

Revised: [DATE]


Cross Reference: Policy Nos. 6020; 6040

Related Superintendent Procedure:

Previous Policies: G06.00 Legal

References:

Management Resources: Governmental Accounting Standards Board 54

	<p>ECONOMIC STABILIZATION ACCOUNT</p>	<p>Policy No. 6022</p> <p>August 10, 2015 [Date]</p> <hr/> <p>Page 1 of 321</p>
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The School Board shall annually adopt a specific stabilization account percentage for the upcoming fiscal year. The ESA shall be informed by the economic climate and recommended between 3 and 5 percent of the ~~budgeted non-grant total actual general fund expenditures of the most recently completed fiscal year.~~ for the upcoming fiscal year.

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~~b.~~ In the event the ESA balance falls below the recommended minimum level of 3%, a plan to replenish the fund will be developed and provided with the resolution authorizing use of the fund. The repayment plan must be reviewed annually as part of the budget process until the funds are fully restored.

~~c.~~ Minimum funding for the ESA when the balance is less than the minimum level as established in (b.) of this section shall not be less than (75%) of the fund balance that falls into the categories of assigned and unassigned as of the most recent financial statements. Minimum funding for the ESA when the balance is less than the maximum level established in subsection (c.) of this subsection shall not be less than (50%) of fund balance that falls into the categories of assigned and unassigned as of the most recent financial statements. This funding is to be transferred annually to the ESA.

~~d.~~ Amounts held in the ESA in excess of the "minimum amount" established in this section may only be expended when specific circumstances exist. The



ECONOMIC
STABILIZATION
ACCOUNT

Policy No. 6022

August 19, 2015

Page 2 of 3

circumstances requiring the expenditure of ESA funds are not expected to recur on a routine basis. The circumstances when it is necessary to appropriate or spend ESA funds are subject to the objective criteria outlining the parameters of the acceptable uses of the ESA funds included below. The existence of the circumstances must be declared by resolution and approved by the School Board that one or more of the criteria listed below exists:

i. Expenditures for emergency situations for life, health, or public safety issues for which no appropriation exists;

ii. Situations where significant unforeseen revenue decline in excess of 5% of original budgeted estimated revenues (excluding transfers in) arises that could not have reasonably been foreseen, and for which new revenue is not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining service levels.

iii. Correcting the results of an inaccurate estimate, accounting error, or budgeting error in excess of 5% of General Fund original budgeted estimated revenues (excluding transfers).

iv. Expenditures where the proposed use is of a nonoperational nature involving capital or technical purchases having a useful life greater than five years that will improve the efficiency of the school district. These efficiency improvements should result in tangible benefits that can be measured.

v. Expenditures where the proposed use is of a nonrecurring nature with tangible benefits, such as start-up costs for a program whose ongoing costs are otherwise funded, grant matching funds, or up-front payment of grant eligible expenses to be reimbursed by grant revenues. These expenditures should result in tangible benefits that can be measured.

The Superintendent is granted the authority to establish procedures in order to implement this policy.

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ECONOMIC
STABILIZATION
ACCOUNT

Policy No. 6022

August 19, 2015

Page **13** of **13**

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