

MEMORANDUM

TO: Board of Directors
FROM: Dr. Greg Baker, Superintendent

Our budget preparation process comprises numerous steps that secure resources and aid in establishing accurate and representative budgets. We use these processes to provide as reliable revenue and expenditure projections as possible, and we regularly review outcomes to evaluate accuracy. Throughout the budget development process, the district engages with key stakeholders using multiple means to communicate with and soliciting information from them. *The 2023-24 budget process began in late fall 2022 and concluded with the board's formal budget adoption in August 2023.*

Securing Resources for the District

The district has multiple efforts that are directed toward ns

Two areas received significant grant awards during the 2022-23 school year, many of which are multi-year awards, include:

- **Mental Health and Wellness:** *BPS secured seven grants totaling more than \$2 million in funds supporting student and staff wellness including suicide prevention training, an*

Our system thrives and achieves more because of our relationships with our incredible local community organizations. These organizations enhance programs, deliver services and provide support. It is the collective commitment to equitable outcomes that we commonly share. By aligning our goals, we are able to provide wraparound services to our children and families, bringing The Promise to fruition. In partnering, we, as a community, make a collective commitment to Bellingham's children.

- **State formula funds** –school districts in Washington state receive most of their funding from the state, as calculated by a formula. For Bellingham, this is about 68% of the general funds available to the district. The district has several strategies to stay informed and offer feedback to state level funding discussions. This year, leadership engaged with the state in several ways. First, the superintendent attended meetings with lawmakers and with the state superintendent (at the state superintendent's invitation) to provide input and reactions as the legislature considered aspects of the state funding law. Second, the finance team attends peer group meetings, OSPI informational and Q&A sessions, and related conferences.

The district keeps informed through attendance at professional meetings, membership in organizations, and by using and reviewing materials and tools issued by OSPI. District leadership and staff are also members and contributors to Washington Association of School Administrators (WASA), Washington Association of School Business Officials (WASBO), Washington State School Directors Association (WSSDA), Association of School Business Officials (ASBO) and Government Finance Officers Association (GFOA).

- **Local Funding**

Revenue

Expenditures

- Staff compensation and benefits rates used in the budget are established collaboratively between finance and human resources staff. These are based on current negotiated agreements, state schedules and rates (health insurance, pension), and average current staffing placement in staff schedules (step increases for education and/or experience – often referred to as the scatter gram.) *For 2023-24, the state legislature applied a 3.7% inflation rate to salary allocations. This increase in salary costs is partially funded through the increased state allocation for staffing and partially funded through local and other funds.* Throughout the budget process, staff cost information is monitored for collective bargaining agreements. The budgets will be adjusted for bargains that are settled after the budget has been completed if costs exceed the contingency amount included in the budget. (March through June).
- Staffing represents the district’s major expense, and the district utilizes position budgeting, wherein all the staffing positions in the district are identified with subtractions and additions from current levels considered as part of the budget process. These positions are then built into the budget and the cost of staffing calculated based on these staff. Accordingly, staffing levels are rolled back to the current year budgeted staffing levels with adjustments made for permanent staffing changes made during the current, this is called the current service level. District leadership meets to review all staffing changes made during the year and assess whether they are continuing or one-time (March).
- Fund balance or reserves are maintained at levels considered prudent financial practice such as: keeping a general minimum level of fund balance ([policy 6022](#)); supporting potential events, such as, compensation changes; and responding to possible over-ratio class sizes and split/ combination grade level classes in the fall. *During budget reductions, the district set the fund balance target for August 31, 2024 at 4.5 percent, which while still at the top end of the range required under policy 6022, is a slight reduction from previous years when we held at five percent.* (June through August)

Preparing the district budget -

Processes for developing the budget

The budget is developed with input from and collaboratively with key stakeholders including the leadership team (district leadership, central services leaders, and school leadership), staff, labor leaders, the board and our community, as described in [Our Budget Development Process](#). The key milestones are described [here](#) and are more specifically, as follows:

- **November 2022:** District leadership met in November to begin planning for the 2023-24 budget. Finance Department updated and released “[Our Budget Development Process](#)” document describing the guiding principles for making budget decisions, the decision-making process, and leadership involvement in the process.
- **December 2022:** Principals and district leaders worked with staff and school communities to examine service levels and spending.
- **December 2022:** The superintendent shared a [budget update](#) for 2023-24 school year with the community seeking input on budget priorities from the community.
- **January 2023:** The superintendent shared a [budget update and Q&A video](#) for 2023-24 school year providing information and answers to questions we heard from the community.

- **January-February 2023:** Principals and district leaders submit requests for changes in spending in the coming year. These above-baseline requests (ABL) are generally increases from current funding levels, as well as budget reduction proposals.
- **January – May 2023:**

in the budget process that helped guide those discussions with our leaders. During budget hearings all leaders were asked to consider and bring forward budget reduction ideas for their departments and those ideas were incorporated into a budget reduction plan that looked at the system as a whole, including finding alternative funding sources. Every idea was considered, reviewed and evaluated. It was important to the team to follow due process rather than simply rolling the systems and support that had been put in place during COVID that were still so important and needed by our staff and students. Communication was key during the process with our school leaders, to ensure they had an understanding of why the reductions were necessary, provide a channel for feedback and know that their feedback was valued. We also increased communication with our community and frequently followed up email communications with more detailed messages, FAQ's and videos that addressed specific concerns or questions. Budget is an ongoing process, and we continue to review and refine the reductions we made and make adjustments and add support where we can.

4. The superintendent shall not fail to:

a. Annual Budget

a.i. Present an annual budget aligned with board ends policies that is understandable by the board and the community that presents all material budgetary assumptions;

In compliance.

a.ii. Present an annual budget aligned with board ends policies that is understandable by the board and the community that explains how new, expanded, or eliminated budget initiatives are aligned with board ends policies;

In compliance.

[The Bellingham Promise](#), as adopted by and continuously updated by the board of directors, sets desired outcomes of current students and graduates. The Promise serves as the primary guide for making program and budget decisions. The program and budget decisions are also based on the ends policies that are established by the board.

The [2023-24 Budget Report](#) was made available to and reviewed with the board during the budget adoption process. The report presents the annual budget, which is a policy document that presents the strategic plan, identifies factors influencing decisions, and describes how this is aligned with board's ends. It is also a financial document that presents the budgetary information and explains key budgetary assumptions; it is an operating document that describes how the budget impacts operations through departments and staffing levels; and it is a communication device that is understandable by the board and the community.

The superintendent explained why the district was faced with a shortfall and how the budget process aligned with board ends through the superintendent's budget message in the budget book, and his board presentations. Proposed changes and all key budget assumptions are

described in the budget report in the superintendent's budget message on pages 1-2 and the section

b. Adopted Budget

b.i. Timely advise the board of actual or anticipated material deviations in the adopted budget;

In compliance.

The board receives monthly budget status reports for all district's funds, by major spending categories. These include summaries of actual to budget, fund balances, tracking of tax receipts and a narrative summary of the status of funds. Additionally, the superintendent is in frequent contact with members of the board to keep them informed of material deviations. There are no known material deviations that were not shared with the board.

Internally, district staff monitor actual revenues and expenditures in several ways.

Revenues are tracked through enrollment and state apportionment reports, and local tax

collections are reviewed /MCI1Ae7d[s)-1 (t-2 (y budget)4 (t)1 (, a)4h(y, di)-2 (s)-1 (to-2 (hrr)3 (i)-2 (p-2 (

b.iii. Timely advise the board of material variances in the budget;

In compliance.

The board is advised of material variances in the prior year's budget to actual expenditures through the monthly budget status reports, the annual financial reports (F-196), of which the [audited 2021-22](#) is available and the 2022-23 unaudited has been completed and will be audited in January 2024, and other frequent superintendent contact with the board regarding emerging issues. There are no known material variances in the prior year's budget to actual expenditures that were not previously shared with the board.

Comparison with Similar and Highly Effective Organizations

The board receives monthly financial data consistent with the requirements of state law. The reports, prepared by district staff, exceed the minimal reporting requirements and provide the board with comparative information and more detailed information on historical patterns. These reports are prepared and delivered in a timely manner with a high-level summary.

Learnings

Finance staff continue to work on developing tools to monitor and project spending, project revenues and identify variances throughout the year. Ultimately, the goal of this work is to better track, monitor, and forecast cash flow and fund balance. For 2022-23, the board received a monthly board report for August 2023 summarizing final revenues and expenditures by fund. In the past, the district has waited to present final reports to the board after the audit.

c. Prepare a four-year forward-looking budget for building organizational capacity to achieve board ends in future years; and

In compliance.

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- *Fully Fund Special Education, eliminate the need for districts to use local levy funds to cover excess costs. (WASA, WASBO, OSPI)*
- *Fix Pupil Transportation, more transparent, predictable and adequately funded (WASA, WASBO)*
- *Re-work funding methodology of regionalization and experience factors to eliminate inequities between districts. (WASA, WASBO)*
- *Update staffing allocations in the prototypical model (WASA, WASBO)*
- *Advancing a living wage for paraeducators (OSPI)*

- d. Provide an affirmative (or negative) statement of the following:**
i. The district received a clean audit opinion.

Affirmative.

For fiscal year 2021-22, the most recently completed and audited fiscal year, the district received a clean audit opinion from the state auditor’s office. Once again, the auditors expressed an adverse opinion on the presentation of the financial statements under US generally accepted accounting principles (U.S. GAAP) and acknowledged that “the (State’s) Accounting Manual does not require the District to prepare ... (such) financial statements.” The audit covered the [financial statements](#), and [federal single and accountability audit reports](#). *The district has not had any external audit findings for 18 consecutive years (2003-04 through 2021-22). The audit of the 2022-23 fiscal year is anticipated to begin in early January 2024.*

Comparison with Budgeting by Similar and Highly Effective Organizations

None noted.

Learnings

District staff work hard to continuously strengthen and enhance the financial management and controls. As we plan for the District Office move, and learn from working remotely during COVID, we are making improvements to streamline and become paper-free while maintaining strong internal controls.

Statement of Compliance: The superintendent is **in compliance** with EL-7.