

January 18, 2022

Board of Directors
Superintendent Dotson
Tumwater School District No.33
621 Linwood Ave. SW
Tumwater, WA 98512

Please find enclosed my report on the Tumwater School District's summer of 2021 hiring freeze. Although the report contains an Executive Summary it is intended to be read in its entirety. The goal of my review was to offer suggestions for improvement to the budgeting process to avoid future events similar to the hiring freeze that occurred last summer.

I also want to thank the staff members for their open and honest dialog. All were very helpful and are passionate about working for Tumwater School District.

The staff recognize issues exist and in response to the issues and concerns that exist, district leaders have started taking steps to address the issues identified in this report. The District Leadership Team has started meeting to discuss budget issues more frequently and has had regular discussions about steps to adjust expenses to align with revenues. The Finance Director has been working to determine how to ensure they have the information needed to improve accuracy of projections. The Finance Director and HR Director have been discussing how to work together to improve communication to ensure early revenue and expenditure projections better support informed decisions about staffing levels for the next school year.

Sincerely,



Wayne Leonard
WT Leonard Consulting

WT Leonard Consulting
Report for Tumwater School District
Educational Service District 113
January 18, 2022

PURPOSE:

The purpose for this report is to have an independent, outside review, of the Summer of 2021 emergency hiring freeze. When nearing completion of the 2021-22 budget, the salary and benefit file that was imported into the budget software had a total salaries and benefit amount that was significantly more than expected. The hiring freeze was requested by the Executive Director of Business Services and approved by the Superintendent.

The hiring freeze surprised some and led to rumors of mismanagement of funds.

EXECUTIVE SUMMARY

1.) Communication and trust levels are strained within the district office staff.

Staff concerns were being raised regarding the budget, which staff felt were not being addressed. Initially, the major concerns were over teacher raises from the 2018 contract negotiations. The Finance Director projected that the new salary schedule, with the existing staffing levels, was unsustainable long-term. There were also concerns over the increased costs of operating during the Covid-19 pandemic. Finally, there were concerns with the pandemic enrollment loss, that although the district began to make some minor reductions in staffing (through attrition and retirements) they were not significant enough to align district expenditures with available resources.

The reasons for strained trust levels are more difficult to describe, but in general staff do not feel their concerns were addressed after being repeatedly brought forward. However, some of the contributing issues are multifaceted and have been present for some time.

2.) Budget development and tracking are not a routine component of District Leadership Team (DLT) meetings.

Of the staff interviewed, all indicated that the budget is not discussed at DLT meetings. This is a practice that precedes the hiring of Superintendent Dotson. Without discussion at the leadership team level it is easy for district level administrators to get different information regarding budget priorities. The purpose of short, frequent DLT meeting discussions about budget issues is to ensure everyone is on the same page and so everyone can contribute, review the issues, ask questions and support the budget process as a leadership team.

3.) Key budget work is split between two departments.

There are two critical early budget planning estimates used in the development of any district's budget. Future enrollment and district staffing levels. Enrollment drives revenues and staffing drives 80%-85% of the expenditures. In Tumwater, both these estimates have historically been prepared in the Human Resources department and have been performed there for as long as anyone could remember. Recently, given the tremendous difficulty in projecting enrollment during the COVID pandemic, enrollment has been worked on and reviewed by multiple departments. This is a step in the right direction as it is imperative that all departments are using the same forecast.

As the district grows the responsibility for these estimates should be transitioned over to the department that bears responsibility for budget development and preparation, which is the Business Office. This realignment will allow the HR department to focus on the expanding breadth of demands they face in service to the district and its employees. This realignment would be consistent with the practice in the vast majority of school districts wherein the Business/Budget offices prepare these estimates, often with larger districts using external assistance from demographic research firms. This would also ensure that estimates are available within the appropriate budget timeline and reduce future surprises later in the budget development process. Discussions on transitioning these duties have begun taking place between the HR and Business Office Departments.

4.) No mismanagement of funds was found.

There have been rumors amongst the staff and perhaps in the community of mismanagement of funds since the hiring freeze was announced in July 2021. The work performed was not an audit of funds, however the incident and issues triggering these rumors seem to be disagreements over management decisions rather than mismanagement of funds. These decisions may include lack of staffing reductions, additional hiring to handle COVID related expenses, contract concessions, among others.

5.) What is the current budget status? Are budget adjustments necessary?

When the McCleary decision was finally implemented, the state put new limits on local school district levies and raised state taxes to pay for McCleary. This change had wide and varying impacts, negatively affecting many districts that had higher levies, including Tumwater, having little to no effect on others and actually benefiting many districts. The new money the state raised was directed to higher state funding for allocation formula funded staff. Statewide districts faced significant bargaining pressure to use these funding increases for compensation increases. Many districts faced lower local levies and have had to address this by reducing the programs that were funded or supplemented with levy funding. Tumwater School District has avoided making these reductions with the help of COVID relief funding and by using its fund balance reserves for the past several years. However, in the past fiscal year the district's fund balance dropped \$2.3 million.

DISCUSSION:

The original focus of this review was to engage in an outside, independent review of the July 2021 hiring freeze that was put into effect during the budget development process. The hiring freeze surprised many people in the district. The review was conducted by interviewing current

and past staff members involved in the freeze as well as looking at publicly available information on the district's and OSPI's website.

During the review process in December 2021 the Administrators in the district presented the Board and Superintendent with a letter of no confidence in the Superintendent. The events surrounding that letter are not part of the scope of this review.

Upon commencing with interviews it was apparent that many of the issues relating to budget development, communications, teamwork, decision making, etc., go back a number of years, preceding Sean Dotson's tenure as Superintendent. The hiring freeze in July 2021 was a symptom of these issues but the issues have existed for some time. None of these issues are insurmountable but they will take time and persistence to resolve in an organization the size of Tumwater School District.

Turnover in the top positions of Tumwater likely contributed to these issues. Over the past six years there have been three Superintendents and three Finance Directors as well as changes at the Board level. There is a natural time lag in responding to issues each time a top level position is turned over since it takes time for the new person to get up to speed on the local issues. This all occurred during a time when state funding of K-12 experienced the most significant changes to funding in the past 40 years, teacher pay raises were the largest ever received and a global pandemic resulted in school shutdowns, remote learning, shortages of supplies such as masks and cleaning solutions, reopening challenges, recessionary fears, and major government assistance to reopen. Additionally, Tumwater had difficult contract negotiations and a teachers strike. This was challenging for school districts statewide but even more so with the turnover in top level staff that Tumwater experienced.

Beginning with the teacher strike and large salary increases for teachers in 2018, the former Finance Director began pushing to make reductions, fearing the new salaries were not sustainable long-term. Many school districts around the state experienced similar large pay increases and made budget reductions the following year. At this time in Tumwater, the

Superintendent was retiring and the hiring process for a new Superintendent was underway so no layoffs or program changes occurred with the exception of eliminating some TOSA positions, with the teachers going back into the classroom.

The 2019-2020 school year was the first for Superintendent Dotson in Tumwater. In February and March of 2020 the COVID pandemic hit the country and schools were shut down going to remote learning for the remainder of the year. During this time, all discussion of budget reductions were put on hold with conversations focusing on remote learning, reopening plans, a possible recession and two rounds of federal COVID assistance. Therefore, no significant budget cuts were considered for the beginning of the 2020-2021 school year. Operating during the COVID pandemic requires additional staffing in many areas such as custodial, para-educators, nursing, technology, online teaching assistance, etc. Supply and materials costs also increased for items such as additional cleaning supplies, disinfectants, personal protective equipment, and additional air filters. Tumwater School District also experienced an enrollment decline of 200+ students similar to many districts around the state, which is significant. This enrollment impact was estimated at \$1.8 million to the district.

During the 2020-2021 school year a third significant round of COVID relief funding was approved. Although three rounds of COVID relief funding was approved, the distribution of these funds was wildly different between districts. This was a cause for concern by many districts since some districts received 3 to 4 times the per pupil allocation as other districts while all were dealing with the impacts of COVID.

When the district began developing plans for the 2021-2022 school year, the additional federal COVID relief funding allowed the district to make the decision to enlarge the Tumwater Virtual Academy, which opened the previous year. The goal was to recapture students who had enrolled elsewhere. Many other school districts around the state planned to do the same. It appears the seeds for the hiring freeze began during the planning for this program expansion. As decision makers focused on recoupment of enrollment a decision was made that the online program could

be expanded without adding staff and existing staff could be reassigned to the program. Analysis would show that Tumwater was already overstaffed after experiencing a drop of 200+ students. From a staffing standpoint, those 200+ students, spread out K-12 between six elementaries, two middle schools and two high schools, were not significant enough at each school to be able to reduce the level of staffing. It was necessary to hire additional staff for the online program. How well this particular problem was communicated or understood by the DLT is not known. Hiring continued and when the salary and benefit file was imported it was much larger than anticipated. The way departmental duties are split in Tumwater, it is possible for the Business and HR departments to be preparing their parts of the budget independently of one another. Without at least brief, ongoing discussion and coordination, of developing budget issues at the DLT level it is easy to see how miscommunications between departments could occur. The resulting hiring freeze surprised many but is certainly not an issue of mismanagement of funds. The freeze is a symptom of larger issues of communication within the district.

Since the freeze occurred, the former Finance Director retired and a new Finance Director hired. There have been discussions of budget cuts but the work of deciding the amount and the program reductions are just beginning. The district still has some federal funds available to claim in the 2021-2022 (current) school year but likely none going forward. The likelihood of additional federal COVID relief funds seems very remote.

Two key indicators that force the district to make budget adjustments are the loss of local funding to enhance the state's program of basic education and the downward trend in fund balance (reserve) amounts. Although the Fund Balance is still above the board's minimum 4% goal it has dropped \$3.4 million from a few years ago.

Appendix A shows that the reduction in local levy and levy equalization authority is approximately \$4 million less than the pre-McCleary collections.

Appendix B shows the Fund Balance history in Tumwater School District.

APPENDIX A

History of Levy and Levy Equalization collections

<u>Year</u>	<u>Levy Authority</u>	<u>Equalization</u>	<u>Total Levy and LEA</u>
2018	\$18,333,615	\$2,389,561	\$20,723,176
2019	\$ 8,309,158	\$2,251,592	\$10,560,750
2020	\$14,938,177	\$1,791,148	\$16,729,325
2021	\$15,164,262	\$1,373,029	\$16,537,291
2022	\$16,223,408	\$ 747,859	\$16,971,267

- Calendar year 2018 was the last year of property tax collections pre-McCleary change.
- For 2019 levies had a maximum of \$1.50 per thousand of assessed valuation, limited to \$1,500 per student. If \$1,500 per student was not raised the state “equalized” up to that amount. These amounts are annually adjusted for inflation.
- In 2020 the legislature adjusted the \$1.50 per thousand and \$1,500 per student limitation to \$2.50 and \$2,500 respectively.
- Tumwater’s total local levy and levy equalization is about \$4,000,000 less annually since the laws changed.

Source for this data is the F-780 report on OSPI’s website.

APPENDIX B

History of Tumwater Fund Balance

<u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>End. Fund Balance</u>	<u>FB as a % of Expend.</u>
2015-16	\$77,174,957	\$73,008,918	\$8,119,258	11.1%
2016-17	\$77,791,987	\$77,789,674	\$8,121,572	10.4%
2017-18	\$85,678,234	\$84,399,796	\$9,400,010	11.1%
2018-19	\$89,149,773	\$89,925,524	\$8,374,260	9.3%
2019-20	\$91,951,934	\$91,927,634	\$8,393,560	9.2%
2020-21	\$94,275,706	\$96,612,802	\$6,061,463	6.3%

The district has been able to maintain a relatively healthy fund balance the past few years thanks to the federal COVID relief funds that became available. However, the Fund Balance has dropped significantly, both in real terms and as a percentage. The district has a history of maintaining healthy reserves (>10%). Although the board policy only requires a minimum of 4% of expenditures, a portion of the fund balance belongs to the regional Skills Center. Best practice would be to identify the amount belonging to the skills center and review Policy 6022 - Adequacy of Fund Balance. By designating the amount set aside as the skills center the district would more clearly provide operational guidance for the administration and transparency for the community and staff as to the district's available resources.

The time to realign the district's staffing and budgeted expenditures with state and local revenues is now upon the district. Further reductions to the fund balance will leave the district vulnerable to any and all economic shifts. Rebuilding the reserves will be easier with the economy doing well and state and local resources in good shape.

