MANAGEMENT
&
OPERATIONAL
REVIEW

QUILCENE SCHOOL DISTRICT
Financial Review
(Efficiencies, Fiscal Allocations & Benchmarking)

5-24-2023

Washington Association of School Administrators
825 Fifth Avenue SE, Olympia WA 98501

QUILCENE SCHOOL DISTRICT
Financial/Budgetary

MANAGEMENT REVIEW

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SPECIAL THANKS: To Quilcene staff for scheduling all the interviews and

opening their office space for the day. Additionally, the candor, honesty and thoughtfulness of the staff that were interviewed was impressive. It is a testament to the District that many stakeholders were given a voice at the table. All those involved provided great input and conveyed a true love for Quilcene.

Leadership | Trust | Advocacy

I. INTRODUCTION

ABOUT THE MANAGEMENT AND OPERATIONAL REVIEW PROCESS

The Washington Association of School Administrators (the Association) was contacted by the Quilcene School District regarding the possibility of carrying out an evaluative study of the district's fiscal resources/allocation models, special services, and the Alternative Learning Program. This study was undertaken to provide an independent review of the District's finances and operations to make recommendations that would provide efficiencies and benchmarks for District improvement.

There will be readers of this report for whom the approach used in this kind of study may be unfamiliar—the following initial section (The Four Phases of a Management Review) is included to introduce the design of a review. A Management Review is intended to provide an objective look at the current operational effectiveness of a district in particular focus areas and to produce a report that the district can utilize in planning for the future. The Association has developed the approach over a 18-year period and carried out approximately 200 studies in Washington and other states.

A review may be designed to address all major programs in a district or be focused upon a narrower program area. In this case, the Quilcene School District was interested in a review covering the district's current/future budget, resource allocations, comparisons with like-size districts, special services, and the alternative learning program (PEARL).

II. THE FOUR PHASES OF A MANAGEMENT REVIEW

PREPARATION

The initial portion of the review is that of planning. A plan is developed in concert with the school district that includes the specific goals and objectives sought. A review team is cooperatively selected and orientation for the team members provided. A meeting is held with key school district personnel to provide accurate input for the team and an introduction to what the review will involve for district employees.

ANALYSIS

The analysis phase involves the on-site activity by the review team. Information is collected in the form of relevant school district policies, reports, documents, etc. In addition, interviews are conducted with administrators, staff members, board members, and other district employees as appropriate. Where possible, there are observations of actual activities within the school system.

EVALUATION
An evaluation of the documentation, interviews, observations, and other information takes place next. This involves the members of the team in collective discussion and independent writing. The review is captured in a report that provides a comprehensive description of district functions with specific findings and recommendations.

REPORTING
The final report is presented personally to the superintendent and board of directors, if desired, and the recommendations for improvement are explained. The report, in its entirety, provides a springboard for planning and positive direction for the school system. Each report is prepared in such a way that the positive strengths of the school district are acknowledged.

III. EXECUTIVE SUMMARY

The summary below is intended to provide a very brief indication of the major points covered in the main report. People are urged to read the report in its entirety to gain a perspective on the work done in the management review process.

This review was requested to have an outside team assess the school district's operations/finances. There were specific issues that the district identified as areas to be covered and questions to be answered in this review.

AREAS OF FOCUS & SUMMARY OF RECCOMENDATIONS:

REVIEW OF DISTRICT BUDGET/CURRENT FINANCIAL POSITION:

Recommendations under this area of focus for the Management Review include the following:

Recommendation: The District has been deficit spending, i.e., spending more than it takes in, since 2019-20 with a projected decrease in fund balance of approximately $950,000 from 2019-2020 to 2022-23. This will be a 43% reduction in reserve balances. (Almost halved) The current level of spending assuming no additional revenue or budget reductions is not sustainable.

The average draw on fund balance from 2019-20 has been $317,000 per year. The reviewer recommends reducing operating costs by approximately $300,000 to eliminate or reduce deficit spending.

Recommendation: The reviewer believes that Policy No. 6022 should be revised to reflect a 10% minimum. A 10% minimum fund balance when using 2022-23 amounts would be approximately $970,000 (@ 10%) vs. $485,000 (@ 5%). The reviewer believes that for the size of the District, the mix of operations (1/3 traditional and 2/3 ALE), and the comparisons to similarly situated districts who have a current average fund balance of 16%+ that setting a minimum fund balance of 10% is prudent.

STAFFING, SALARY/BENEFITS, & SPECIAL SERVICES EXPENDITURES:

Recommendations under this area of focus include the following:

***Recommendation*:** The 85% standard, *(85% of budget being expended for labor costs*) which is generally the canary in the coal mine for financial insolvency in Washington School Districts, should not apply to an ALE dominant school district. The reviewer's professional opinion is that Quilcene should utilize an 80% maximum threshold for the percentage of budget dedicated to labor expenses. This will ensure future solvency and align with the spending requirements for a robust alternative learning program such as the PEARL.

***Recommendation*:** Reviewer noted that during interviews and a review of the district's financial documents that special education spending is in-line with the Jefferson County School Districts and is in fact 1.9% less than the County average. Providing special education services in an ALE environment can be difficult depending on the handicapping condition of the student. The reviewer cautions that given ALE is funded at a flat rate and not supplemented by other local funding that special education services should be provided as judiciously as possible. In other words, without the backstop of other funding sources the ALE funding stream <u>may not</u> keep pace with the cost of providing special education services.

ADMINSTRATIVE EXPENSES & WORKLOAD DISTRIBUTION

Recommendations under this area of focus include the following:

Recommendation: Overall impressions are that the admin staffing levels are comparable to state-wide averages and the trend of administrative expenses is decreasing as a percentage of the budget. Given the size of the District its "overhead" is in line with industry standards (albeit on the upper limits). The District should be mindful of growing any administrative FTE as they are making budget reductions and looking to stabilize the finances of the District.

Recommendation: The reviewer in this case noted no need for additional staffing in central administration. In fact, the District should look to decrease administrative staffing when attrition or staff movement occur. The District is moving their overhead numbers in the right direction with the 2022-23 budget. Additionally, given the size and current needs of the District, coupled with a significantly above average Superintendent's Office expense percentage, the change to a .50 FTE superintendent is a prudent financial/operational move.

ALE PROGRAM'S FINANCIAL RELATIONSHIP TO BRICK & MORTAR

Recommendations under this area of focus include the following:

Recommendation: The reviewer recommends using an average of the three prior years' state recovery rate for indirect expenditures, plus 5%. An additional amount/percentage is needed as historically the District has been recuperating 35% of the ALE revenue. Moving downward to only the state-wide recovery rate may be too aggressive, as the last three years have averaged 20.4%. To reiterate the reviewer is recommending using the <u>3-year state-wide recovery rate plus 5%</u> as the division of revenue for the PEARL program and Quilcene School District. The reviewer also recommends that the amount can/should be adjusted, based on the overall financial position of the entire district.

Recommendation: The reviewer recommends no further decreases in the caseload requirements for PEARL instructional staff. The change from 1:54 to 1:48 increased ratio driven staffing (using 456 FTE) from 8.4 to 9.5. This is only a change of 1.1 certificated FTE but will cost the District an estimated $125,000 annually. Further, the reviewer recommends "tightening up" on supply/material purchases, which should balance family/student needs and district financial stability.

Recommendation: The reviewer examined staffing levels within the PEARL program and believes that current support is adequate for the program, for most of the school year. The current staff are dedicated and hard working but from the middle of June to the first part of August they are "under-staffed." The period from June to August is when material is being returned by students/families (current school year) and staff is also trying to fulfill orders for the future school year. The reviewer in this case would recommend setting aside funds for time sheet driven, temporary support. This will keep costs down and allow multiple staff to be utilized to complete the work. Current employees who do not work on a 12-month contract would be an excellent choice for the temporary labor needed to process the PEARL materials.

IV. MANAGEMENT REVIEW TEAM:

The management review team was composed of a single member, Mr. Jacob Kuper. Mr. Kuper is currently Assistant Superintendent of Finance for Yakima Schools. He has over 20 years of experience with Washington State School Districts' finances and operations. Mr. Kuper is a former Washington State Auditor, CFO/COO of Issaquah School District and provides consultation services to school districts around the State.

V. LOGISTICS OF THE REVIEW

The plan for a review as outlined above involved the examination and study of documentary information as well as the on-site interviews of many people involved in the school district. The list below represents a sample of the information requested for examination and reviewed for this project:

DOCUMENTS REVIEWED/COMPARISION DISTRICTS
In advance of the onsite visit, we reviewed the District's current F-195 (Annual Budget(s)), the most recently completed financial statements, current State Apportionment Statements, the F-203 (Annual Revenue Estimate), Approved local levies (amount and timing), Staffing allocations, expense reports, other internal financial documents, applicable org charts, salary schedules, OSPI data for district comparisons.

The comparison District in this case was chosen to provide a representation of various districts across the region that are comparable in size and offer an ALE program. The reviewer understands that there is no perfect comparison, however in this case comparisons were chosen based on geography, size and program offerings.

THOSE INTERVIEWED
The first point of contact in the review was via a phone call to Superintendent Frank Redmon. We collaborated on the scheduling of interviews and the focus of the review. We settled on May 12th, as the onsite interview date. The interview schedule consisted of half hour to one-hour interviews depending upon the individual/department.

The following Quilcene stakeholders were interviewed:

- Frank Redmon, Superintendent
- Gena Lont, Director of Business Services
- Jonie Crowell, TOSA for PK-12 Special Services
- LaShae Lee, TOSA for PEARL Special Services
- Jodi Keiffer, Principal for PEARL
- Pam Mack, HR/Payroll Specialist
- Jami Sukert and Niki Collins, Admin Assistant to the Superintendent & Accounts Payable
- Jeremy Mueller, Brett Thompson, and Christina Ware, PEARL support staff.
- Tammy Thompson and Siehara Wong, PK-12 support staff

VI. THE REPORT

OVERVIEW:
Quilcene is a district in Jefferson County with student FTE of approximately 650 students. This management review was undertaken to review.

- The District's budget and current financial position
- Staffing, salary/benefits, and Special Services Expense
- Administrative expenses and workload distribution
- Alternative Learning Experience (ALE) financial relationship to brick and mortar school

PROCESS:
This management review is comprised of three major components, preparation, analysis, and evaluation.

The analysis phase was bifurcated into the onsite review and the examination of provided/gathered documentation. The analysis of school District data was done prior to the onsite visit. This allowed the reviewer to be acquainted with the District's financial position and have empirical data of like size school districts.

The interview process was done in approximately 30-to-60-minute increments. All staff spoke with candor and passion. It was communicated to all those interviewed what the goals of the review were, and that a written report was to be provided. It is also worth noting that some comments were asked to remain confidential, non-disclosure of those comments does not have an impact on the recommendations provided in this report.

The final phase of the review is the evaluation or synthesis stage. This stage is where the onsite work and data gathering come together in a written report.

BACKGROUND: (Themes of Onsite Interviews)

Themes of Onsite Interviews:

The interview process is one that allows for themes to emerge that guide the final recommendations. As the reviewer it was apparent to me that most of those interviewed were cognizant of the District's financial/operational concerns. There was a sense of shared responsibility, and not an attitude of blame, which the reviewer found refreshing. All stakeholders provided insight on what the District should do to align spending with revenue.

All stakeholders were provided with a small amount of background, that being that the reviewer was hired to examine the District's finances and determine what areas may need to be changed based on best practice and professional experience.

The major themes that came to the forefront were as follows:

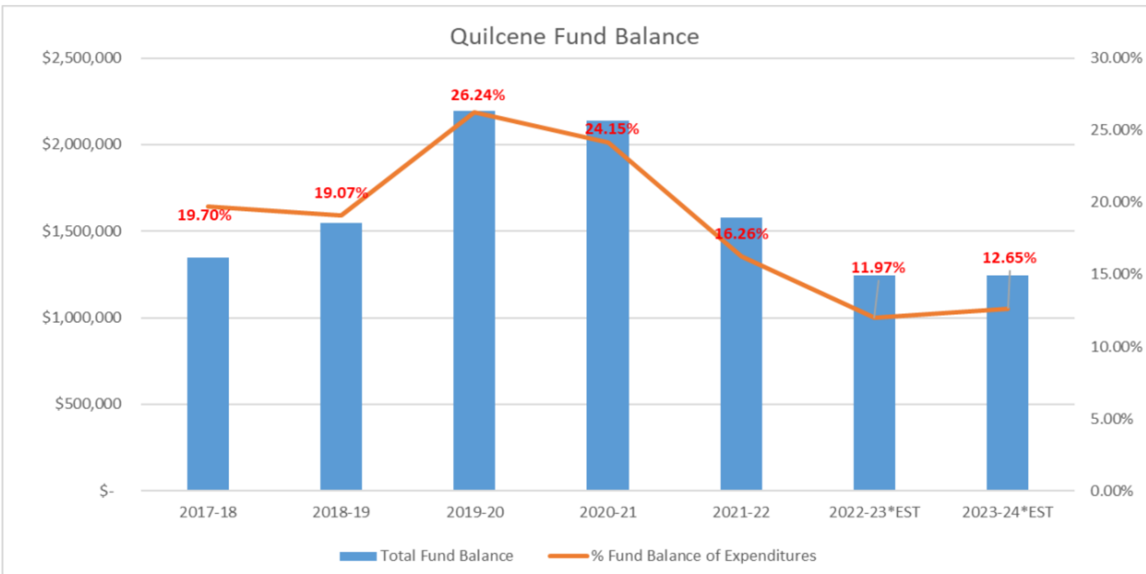
- The need for consistent and clear communications from leadership.
- Continued clarity on the financial/operational relationship with PEARL (ALE) and the brick-and-mortar Quilcene Schools program.
- The newly vacant superintendency should only be filled with a .50 FTE.
- Morale has suffered from past uncertainty in business office staffing.
- Workload at certain times of the year can be "intense," especially in a 6-to-8-week period over the summer and into the new school year. (This was a theme in the PEARL and in the P-12 building)

Overall, the interview process was helpful and provided a window into the District that is essential when reviewing finances and budgetary priorities.

SECTION 1: REVIEW OF DISTRICT BUDGET/CURRENT FINANCIAL POSITION

Challenge 1: *Determining if the District is financially stable or healthy. This challenge is more difficult than it appears, but the first measure is often the change in "equity" or reserve balances.*

Recommendation 1: Examine the trend of fund balance or reserves and determine if the District is "deficit spending." The graph below represents the trend and projection of the District's total fund balance reserves, both as a percentage of expenditures and in total dollars. The amounts reflected assume no corrective action (budget reductions) and no major changes in revenue streams.



The District has been deficit spending, i.e., spending more than it takes in in revenue since 2019-20 with a projected decrease in fund balance of approximately $950,000 from 2019-2020 to 2022-23. This will be a 43% reduction in reserve balances. (Almost halved) The current level of spending assuming no additional revenue or budget reductions is not sustainable. The average draw on fund balance from 2019-20 has been $317,000 per year. The reviewer recommends reducing operating costs by approximately $300,000 to eliminate or reduce deficit spending.

Reviewers Note: The reviewer is aware that at the time of this report writing, budgetary reductions are planned for approximately $265,000, which is in alignment with recommendations provided above.

Challenge 2: *Provide a clear goal or target of adequate fund balance reserves.*

Recommendation: The Board of Directors has established a minimum for the recommended level of total fund balance and reserves needed for emergencies at 5% of expenditures in District Policy No. 6022. The "goal" in policy is 10%, even though the minimum is set at 5 percent.

The reviewer believes that Policy No. 6022 should be revised to reflect a 10% minimum. A 10% minimum fund balance when using 2022-23 amounts would be approximately $970,000 (@ 10%) vs. $485,000 (@ 5%). The reviewer believes that for the size of the District, the mix of operations (1/3 traditional and 2/3 ALE), and the comparisons to similarly situated districts who have a current average fund balance of 16%+ that setting a minimum fund balance of 10% is prudent.

The minimum fund balance of 10% is also needed for liquidity, unforeseen budgetary issues (think SEBB, IPD, roof or boiler failure, etc.) In my professional opinion the District should strive to reach the minimum 10.0% fund balance and if needed also be transparent about the need for additional reserves for capital/maintenance projects.

Reviewers Note: For the 2021-22 fiscal year the average ending fund balance state-wide was 14.7% of expenditures.

SECTION 2 STAFFING, SALARY/BENEFITS, & SPECIAL SERVICES EXPENSES:

Challenge 1: *Determine if the District is spending too much on "staffing" or labor expenses as a percentage of the total budget.*

As a percentage of labor expense, over 85%, is often the canary in coal mine as it relates to financial insolvency in a traditional brick and mortar district in Washington State. The state-wide average for 2020-21 was 84.4%, this percentage has increased 2 to 3% points over the last four-year period, and indicator of the financial stress the entire State is under in a post pandemic environment. Below is a table created to provide comparisons of similar situated districts:

Quilcene, Orcas, Port Townsend, North Beach and Chimacum School Districts

% of Total Expense that is Salary/Benefits	Quilcene
$ 3,492,668	Cert Salaries
$ 1,721,550	Classified Salaries
$ 2,022,497	Benefits
$ 7,236,716	Total
$ 9,704,076	Total Expenses
74.6%	% Salary/Benefits
Total Ending Fund Balance	$ 1,578,112
Ending Fund Balance %	16.26%
Beginning Teacher Salary (22-23)	$ 55,022
Top Teacher Salary (22-23)	$ 103,708
ALE FTE 22-23	456.23
Percent of Total ALE as total District Enrollment	69.2%
AAFTE 2022-23	659.26

% of Total Expense that is Salary/Benefits	Orcas
$ 4,772,981	Cert Salaries
$ 2,420,789	Classified Salaries
$ 2,766,531	Benefits
$ 9,960,301	Total
$ 12,365,065	Total Expenses
80.6%	% Salary/Benefits
Total Ending Fund Balance	$ 3,001,680
Ending Fund Balance %	24.28%
Beginning Teacher Salary (22-23)	$ 56,135
Top Teacher Salary (22-23)	$ 113,278
ALE FTE 22-23	278.04
Percent of Total ALE as total District Enrollment	40.1%
AAFTE 2022-23	693.19

% of Total Expense that is Salary/Benefits	Port Townsend
$ 8,569,371	Cert Salaries
$ 3,134,044	Classified Salaries
$ 4,610,519	Benefits
$ 16,313,933	Total
$ 21,777,860	Total Expenses
74.9%	% Salary/Benefits
Total Ending Fund Balance	$ 2,672,027
Ending Fund Balance %	12.27%
Beginning Teacher Salary (22-23)	$ 53,518
Top Teacher Salary (22-23)	$ 108,166
ALE FTE 22-23	128.46
Percent of Total ALE as total District Enrollment	10.9%
AAFTE 2022-23	1,173.49

% of Total Expense that is Salary/Benefits	North Beach
$ 5,237,755	Cert Salaries
$ 3,043,261	Classified Salaries
$ 3,362,242	Benefits
$ 11,643,257	Total
$ 14,109,787	Total Expenses
82.5%	% Salary/Benefits
Total Ending Fund Balance	$ 2,152,504
Ending Fund Balance %	15.26%
Beginning Teacher Salary (22-23)	$ 62,383
Top Teacher Salary (22-23)	$ 108,315
ALE FTE 22-23	3.14
Percent of Total ALE as total District Enrollment	0.5%
AAFTE 2022-23	649.91

% of Total Expense that is Salary/Benefits	Chimacum
$ 5,191,543	Cert Salaries
$ 2,807,316	Classified Salaries
$ 3,190,797	Benefits
$ 11,189,656	Total
$ 13,979,185	Total Expenses
80.0%	% Salary/Benefits
Total Ending Fund Balance	$ 2,372,774
Ending Fund Balance %	16.97%
Beginning Teacher Salary (22-23)	$ 51,762
Top Teacher Salary (22-23)	$ 99,901
ALE FTE 22-23	60.76
Percent of Total ALE as total District Enrollment	8.8%
AAFTE 2022-23	689.03

% of Total Expense that is Salary/Benefits	AVERAGES
$ 5,452,863	Cert Salaries
$ 2,625,392	Classified Salaries
$ 3,190,517	Benefits
$ 11,268,773	Total
$ 14,387,194	Total Expenses
78.3%	% Salary/Benefits
Total Ending Fund Balance	$ 2,355,419
Ending Fund Balance %	16.37%
Beginning Teacher Salary (22-23)	$ 55,764
Top Teacher Salary (22-23)	$ 106,674
ALE FTE 22-23	$ 185
Percent of Total ALE as total District Enrollment	26%
AAFTE 2022-23	772.98

Recommendation: The data above further demonstrates the need for reserves to be at least 10% as the average of the comparisons is 16.37% (Current Quilcene fund balance is 16.26%). The average percentage of budget that is utilized for salary/benefit expenditures is 78.3% for the comparison group. As noted earlier the state-wide average of labor costs as a percentage of expenditures is 84.4%.

The reviewer would normally opine that Quilcene, which is utilizing 74.6% of budget for salary/benefits is in-line or slightly below industry standards. However, given that the District's programing is approximately 2/3 ALE and 1/3 "traditional," the spending patterns and benchmarks should be tailored accordingly. The reviewer asserts that the ALE program requires a greater percentage of budget be utilized for supply and material purchases, which in turn drives down the amount of budget that can be expended upon salary/benefits. The ALE program run by

Quilcene does require intensive purchasing of supplies/materials. The 85% standard (85% of budget being expended for labor costs) which is generally the harbinger for financial insolvency in Washington, should not apply to an ALE dominant school district. The reviewer's professional opinion is that Quilcene should utilize an 80% threshold for the percentage of budget dedicated to labor expenses. This will ensure future solvency and align with the spending requirements for a robust alternative learning program such as the PEARL.

The table below provides further empirical data to support the reviewer's assertions. The state-wide average in 2021-22 shows a combined actual expenditure of supplies/materials/purchased services of 16.5% of total expenditures. Quilcene has 24.37% of total expenditures dedicated to supplies/materials/purchased services, which is nearly 8% greater than the state average.

District/Entity:	Total Expense	Supplies/Materials	% Supplies/Materials	Purchased Services	% Purchase Services
Statewide	**18,468,601,374**	**997,675,004**	**5.40%**	**2,043,808,818**	**11.1%**
Port Townsend	**$ 21,777,860**	1,654,815	**7.60%**	3,196,703	**14.7%**
Chimacum	**$ 13,979,185**	790,955	**5.66%**	1,965,739	**14.1%**
Quilcene	**$ 9,704,076**	**957,521**	**9.87%**	**1,403,232**	**14.5%**
Brinnon	**$ 1,609,080**	181,210	**11.26%**	301,226	**18.7%**
Queets-Clearwater	**$ 1,004,791**	114,570	**11.40%**	295,613	**29.4%**

Additionally, the size and location of Quilcene drives higher "non-labor" costs, which are also reflected by the Jefferson County districts who average 27.43% of expenditures being dedicated to supplies/materials/purchased services.

Challenge 2: *Determine if the District is spending too much on "special services "as a percentage of the total budget.*

District	Total Expenses	Total Special Education Expenses	Special Education as a % of Total Expenses
Port Townsend	**$ 21,777,860**	**$ 2,914,770**	**13.4%**
Chimacum	**$ 13,979,185**	**$ 2,033,110**	**14.5%**
Quilcene	**$ 9,704,076**	**$ 936,388**	**9.6%**
Brinnon	**$ 1,609,080**	**$ 127,109**	**7.9%**
Queets-Clearwater	**$ 1,004,791**	**$ 120,043**	**11.9%**
County Average:	**$ 9,614,998**	**$ 1,226,284**	**11.5%**

Recommendation: Reviewer noted that during interviews and a review of the district's financial documents that special education spending is in-line with the Jefferson County School Districts and is in fact 1.9% less than the County average. The above table is from the 2021-22 fiscal year.

Additionally, the reviewer spoke with the program manager for special education and the special education TOSA for the PEARL. Both staff have sufficient experience and skills to guide Quilcene's special education programming. The traditional school building has well thought out staffing/specialist schedules that are driving resources where the students IEP demands. The philosophy of service and the coordination between brick & mortar and PEARL has been successful this current school year. The reviewer recommends continued coordination and provision of resources driven by the student's IEP.

Providing special education services in an ALE environment can be difficult depending on the handicapping condition of the student. The reviewer cautions that given ALE is funded at a flat rate and not supplemented by other local funding that special education services should be provided as judiciously as possible. In other words, without the backstop of other funding sources the ALE funding stream may not keep pace with the cost of providing special education services.

SECTION 3: ADMINSTRATIVE EXPENSES & WORKLOAD DISTRIBUTION

Challenge: Does the District have appropriate staffing levels in administration and is the workload distributed effectively?

Recommendation: Review "Admin Cost Comparisons" and trends of administrative expenses. The table below provides a snapshot of the District vs. the State as well as a two-year trend of administrative expenses for Quilcene. Overall impressions are that the admin staffing levels are comparable to state-wide averages and the trend of administrative expenses is decreasing as a percentage of the budget. Given the size of the District its "overhead" is in line with industry standards (albeit on the upper limits). The District should be mindful of growing any administrative FTE as they are making budget reductions and looking to stabilize the finances of the District.

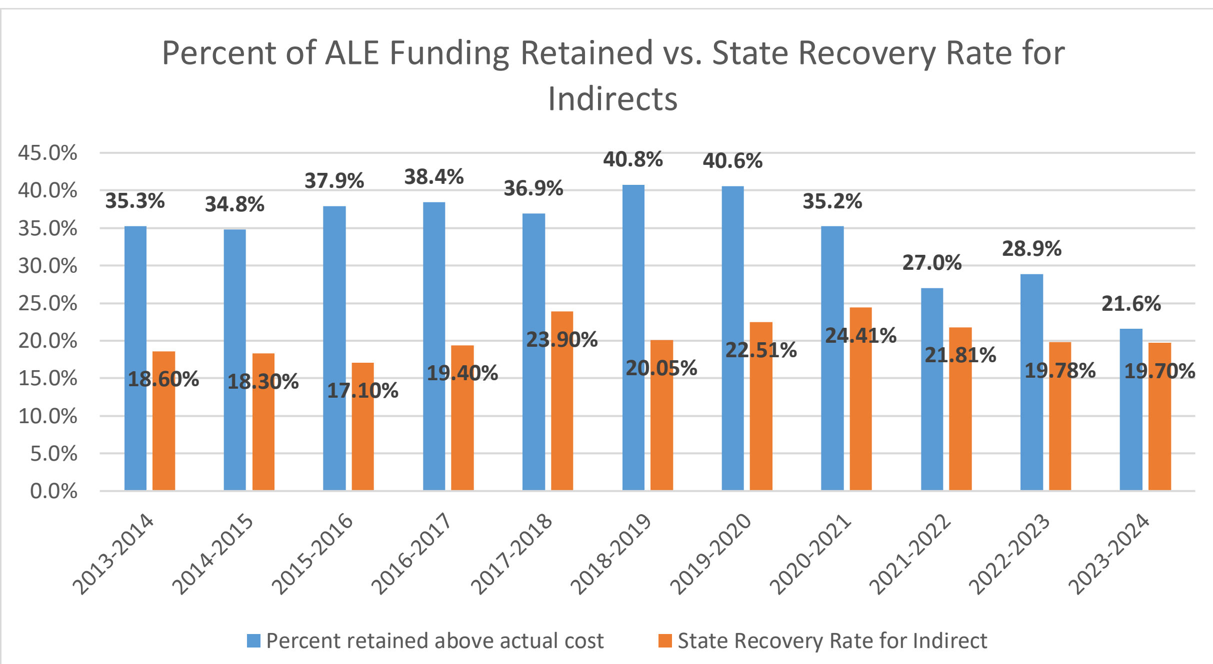
		Actual State Average 2021-22	Actual Quilcene 2021-22	Budget Quilcene 2022-23
11	**Board of Directors**	0.32%	0.66%	0.32%
12	**Superintendents Office**	0.69%	2.49%	2.41%
13	**Finance Office**	1.15%	2.01%	2.02%
14	**Human Resources**	0.81%	1.08%	1.03%
15	**Public Relations**	0.22%	0.23%	0.11%
21	**Supervision-Instruction**	2.39%	1.70%	1.39%
41	**Supervision-Food Service**	0.24%	0.29%	0.30%
51	**Supervision-Transportation**	0.41%	0.90%	0.88%
61	**Supervision-Maintenance/Operations**	0.33%	1.05%	1.08%
	Total Central Administration	6.56%	10.43%	9.55%
23	Building Administration	5.89%	4.42%	3.88%
	Total Central & Building Admin.	**12.45%**	**14.84%**	**13.44%**

Recommendation The reviewer in this case noted **no need** for additional staffing in central administration. In fact, the District should look to decrease administrative staffing when attrition or staff movement occur. The District is moving their overhead numbers in the right direction and with the 2022-23 budget. Additionally, given the size and current needs of the District, coupled with a significantly above average Superintendent's Office expense percentage, the change to a .50 FTE superintendent is a prudent financial/operational move. The reviewer is appreciative of staff and the Board of Directors for moving forward with a half-time interim superintendent position.

SECTION 4: ALE PROGRAM'S FINANCIAL RELATIONSHIP TO BRICK & MORTAR

Challenge: What percentage of ALE revenue, above actual costs should be provided to the Quilcene School District by the PEARL program?

Recommendation: The PEARL is an ALE (alternative learning experience) administered 100% by the Quilcene School District. ALE is provided in a singular flat rate amount for each full-time student ($9,555 in 2023-24). The ALE funding is provided when the district meets the statutory obligations proscribed by the legislature. The ALE program itself can run at various levels of cost depending upon the amount of supplies/material provided to students/parents and the overall ratio of teacher to students. (i.e., labor cost). The District has a large amount of discretion (historically) on staffing ratios and overall costs. Quilcene must balance the quality of program offerings with the total cost of program.



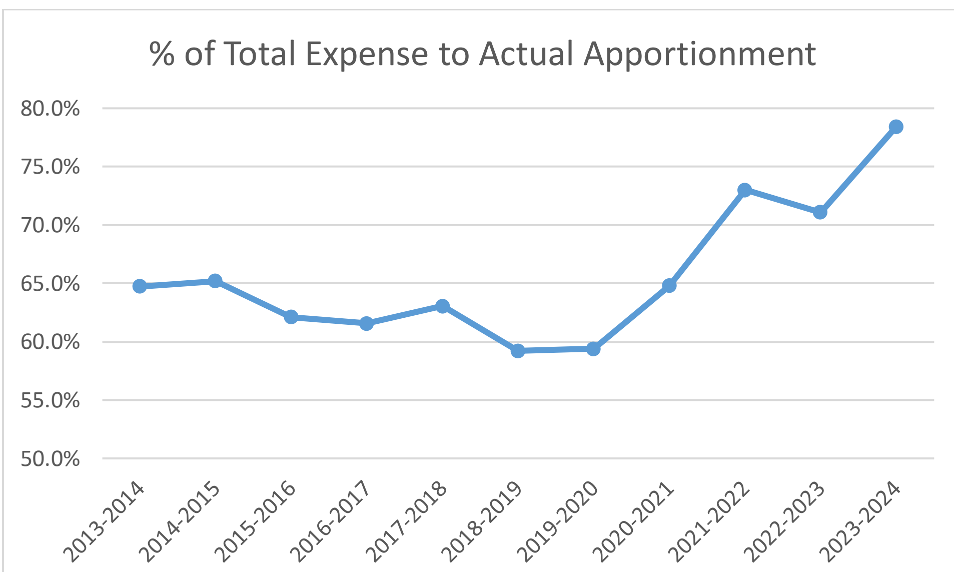
The table above illustrates that each year the amount retained above actual cost of program has been consistent, until the 2021-22 school year. These cost increases could have been pandemic related, but the reviewer also ascertains that the ALE funding stream is simply not keeping up with the costs, especially in an environment with the highest inflation rates in 40+ years.

Following the analysis of the table above it is clear to the reviewer that at a minimum the brick & mortar should be budgeting directs costs for PEARL to not exceed the ALE funding allocation (less) the amount for state-wide recovery. In other words, at a <u>**minimum**</u> the PEARL program should be returning to the Quilcene district the state recovery rate percentage. The reviewer also believes that to be financially solvent and transparent the amount retained above actual costs should be simple to calculate and predictable as possible.

To that end, the reviewer recommends using an average of the three prior years' state recovery rate for indirect expenditures, plus 5%. An additional amount/percentage is needed as historically the District has been recuperating 35% of the ALE revenue. Moving downward to only the state-wide recovery rate may be too aggressive, as the last three years have averaged 20.4%.

To reiterate the reviewer is recommending using the <u>3-year state-wide recovery rate plus 5%</u> as the division of revenue for the PEARL program and Quilcene School District. The reviewer also recommends that the amount can/should be adjusted, based on the overall financial position of the entire district.

Challenge: Total program costs and specifically labor costs cannot outstrip state funding for ALE or the program will become a financial drain on Quilcene School District. Recently the State has been providing "large" inflationary wage adjustments, which have rippled through the funding systems across the state, causing a drain of local resources and fund balances. The chart below shows the costs for the PEARL program as a percentage of ALE apportionment received by Quilcene. The data clearly demonstrates rising costs, both from labor and non-labor drivers.



Recommendation: The reviewer recommends no further decreases in the caseload requirements for PEARL instructional staff. The change from 1:54 to 1:48 increased ratio driven staffing (using 456 FTE) from 8.4 to 9.5. This is only a change of 1.1 certificated FTE but will cost the District an estimated $125,000 annually. Further, the reviewer recommends "tightening up" on supply/material purchases, which should balance family/student needs and district financial stability.

Challenge 3: Does PEARL need any additional support staffing to ensure it can meet District and program goals?

Recommendation: The reviewer examined staffing levels within the PEARL program and believes that current support is adequate for the program, for most of the school year. The current staff are dedicated and hard working but from the middle of June to the first part of August they are "under-staffed." The period from June to August is when material is being returned by students/families (current school year) and staff is also trying to fulfill orders for the future school year. The reviewer in this case would recommend setting aside funds for time sheet driven, temporary support. This will keep costs down and allow multiple staff to be utilized to complete the work. Current employees who do not work on a 12-month contract would be an excellent choice for the temporary labor needed to process the PEARL materials.

Conclusion: The District is taking the appropriate steps to "right the financial ship," and the reviewer commends District leadership for undertaking this process. Overall, fine tuning the financial relationship between the PEARL program and Quilcene School District will pay dividends into the future. The reviewer also wanted to thank the Superintendent and the School Board for their thoughtful and prudent leadership.