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**MANAGEMENT
and
OPERATIONAL
REVIEW**

**LA CONNER SCHOOL DISTRICT
Financial Review**

January 9, 2017

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

LA CONNER SCHOOL DISTRICT FINANCIAL REVIEW

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I. INTRODUCTION

ABOUT THE MANAGEMENT AND OPERATIONAL REVIEW PROCESS

The Washington Association of School Administrators (the Association) was contacted by the La Conner School District regarding the possibility of evaluating the district's expenditures per student utilizing the Management Review format developed by the Association. Following discussion by the superintendent and Board of Directors, the district determined to have a review carried out by the district's January 9, 2017, school board meeting.

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 district 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 16-year period and carried out almost 140 studies in Washington and other states.

A review may be designed to address all major programs in a district or have a narrower focus. In this case, the review focuses narrowly on the school district's General Fund expenditures per student compared to other school districts.

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. AREAS OF FOCUS

La Conner requested this review to allow an outside team to analyze the school district's operations and finances. After discussions with La Conner School District leadership, WASA planned a limited scope financial review organized around these questions:

- What services/factors contribute to above-average costs per student; and what are the sources of funding?
- How do La Conner's expenditures per student compare to neighboring districts and districts of like size?
- What role does La Conner's M&O levy and levy equalization play in supporting services to students?

IV. MANAGEMENT REVIEW TEAM

The management review team consisted of:

Andy Wolf, WASA Assistant Executive Director, former Principal, Assistant Superintendent, and Superintendent of Yelm Public Schools.

Allen H. Jones, semi-retired school business consultant doing business as SchoolBizness LLC. Mr. Jones retired after 26 years in school finance including roles as Director of School Apportionment and Financial Services for OSPI, and Director of Financial and Support Services for the Tumwater School District.

V. LOGISTICS OF THE REVIEW

DOCUMENTS REVIEWED

The plan for review as outlined above involved detailed analysis of financial and staffing information for La Conner and the nine school districts identified as comparison districts. The review relied entirely on demographic, financial, and staffing information available from the state Office of Superintendent of Public Instruction (OSPI). There has been no attempt to adjust the OSPI values for anomalies. Not all districts offer the same number and types of programs. For example, La Conner operates a preschool program serving approximately 40 children. Preschool expenditures are included, but preschool FTE students are not included in calculating per student amounts shown in this report. To the extent La Conner's preschool program is unique, La Conner's enrollment is understated and revenues and expenditures per student are over-stated. Differences in school district accounting also contribute to differences shown in this analysis.

The review uses information from OSPI for the 2015–16 school year. This is the most recent year for which financial information is available for all school districts. It should be noted that La Conner made budget changes in the 2016–17 school year which would change the results shown in this report. Some of these changes are summarized at the end of the report. Comparison district data has also changed since 2015–16.

Other documents reviewed include the district's "Strategic Road Map," organization chart, and salary schedules.

THOSE INTERVIEWED

To better understand the programs offered by La Conner, reviewers conducted on-site interviews with several of the following district representatives:

Peggy Ann Seeling, Interim Superintendent
John Thulen, School Board President
Andrew Wheeler, Special Programs Administrator
Beverly Bowen, Elementary School Principal
Bonnie Haley, Business Manager

VI. THE REPORT

BACKGROUND

La Conner is a small school district on the shores of Puget Sound at the mouth of the Skagit River. The district includes the Swinomish Indian Reservation, and over one-third of the district's students are Native American. Another one-third of the district's students are non-Native Americans who live on reservation lands that are privately held or leased from the tribe. Thus, about two-thirds of the district's students reside on reservation lands. This includes students residing in the Shelter Bay and Pull and Be Damned communities. Prior to 2015, residents of these communities' paid property tax to the La Conner School District. However, because of a court ruling, known as the Great Wolf Lodge decision, these properties were removed from the district's property tax rolls. This reduced the school district's property tax base and shifted school district's property taxes to remaining property owners. The resulting increase in the tax rate contributed to the failure of the school district's maintenance and operation (M&O) levy in February 2016 and critical scrutiny of the district's finances. The district successfully ran an M&O levy for a reduced amount. Residents question why La Conner School District's expenditures per student exceed expenditures per student in neighboring districts. To answer this question and to provide transparency to the community, the district asked the Washington Association of School Administrators to conduct an independent review of the district's expenditures. This report is the result of that review.

REVIEW METHODOLOGY

The review began by comparing La Conner School District's revenues, expenditures, and demographics with six neighboring school districts in Skagit County. After noting the impact of the Swinomish Reservation on La Conner's student population and revenues, the review looked at comparison districts of similar size also serving Native American students residing on tribal lands. Three districts met that profile, Wellpinit, Cape Flattery, and Mount Adams. This established two sets of comparison districts, the six neighboring districts in Skagit County, and the three school districts with tribal lands.

The review used financial and personnel data available from the Office of Superintendent of Public Instruction (OSPI) to construct sixteen exhibits comparing La Conner with the two groups of comparison districts. All financial and personnel data used in the review is from 2015–16 school year data on file with OSPI. Levy data in Exhibits O and P is for the 2016 calendar year. Financial information is from school district year-end financial statements (Report F-196). Personnel information is from October 1 staffing information (Report S-275). Levy information is from OSPI report F-780 and from tax summary information published by OSPI.

To calculate per student amounts, financial and staffing values were divided by each school district's 2015–16 annual average fulltime equivalent enrollment. This includes FTE students in grades kindergarten through twelve (K-12), plus special education headcount students reported on Report 1220. Other preschool enrollment is not reported to OSPI and is not included in state FTE enrollment. La Conner operates a large preschool program with tribal support. Approximately 40

students in the preschool program are not in La Conner’s FTE count in this analysis. This omission understates La Conner’s enrollment and overstates La Conner’s revenue and expenditures per student, possibly by as much as 5 percent.

The body of the report is a summary and analysis of the 16 exhibits comparing La Conner’s revenue and expenditures per student with comparison districts.

WASA observations make up the balance of the report.

EXECUTIVE SUMMARY

La Conner 2015–16 General Fund expenditures per student are \$4,607 (38 percent) above average expenditures per student for the six neighboring school districts in Skagit County. Expenditures per student by district are shown below:

La Conner	\$16,620
<u>Other Skagit County School Districts</u>	
Conway	\$11,786
Concrete	\$13,306
Anacortes	\$11,459
Burlington-Edison	\$12,085
Sedro-Woolley	\$11,610
Mount Vernon	\$11,830
Average	\$12,013
Difference	\$ 4,607 38 percent

La Conner General Fund revenues of \$4,625 also exceed the average of other Skagit County school districts by about 38 percent. Additional revenues come primarily from:

- Additional Federal Impact Aid (due to tribal lands).
- Local Nontax Support (primarily from the Swinomish Tribe).
- State small high school funding (from the state funding formulas).

The additional funding is spent primarily for additional staff providing teaching and teaching support in the basic education classroom and in a preschool program. Additional Basic Education expenditures provide:

- Lower average-class sizes and additional instructional assistants at elementary grades.
- More and smaller classes at the high school level to provide specialized classes such as advanced mathematics and foreign language.
- A preschool program not offered by most districts.
- Extracurricular activities such as coaching for sports and support for clubs and after-school activities.

La Conner revenues and expenditures are roughly equal (within 2 percent) of the three like-sized school districts with tribal lands. Expenditures per student by district are shown below.

La Conner **\$16,620**

Selected Districts With Tribal Lands

Wellpinit	\$16,677
Cape Flattery	\$17,628
Mount Adams	\$14,876
Average	\$16,394
Difference	\$ 226 1.4 percent

La Conner revenues are higher for:

- Local Tax (the M&O property tax levy).
- Local Nontax Support (primarily from the Swinomish Tribe).

La Conner revenues are lower for:

- Local Effort Assistance (state levy equalization).
- Federal Impact Aid (for tribal lands).
- Small school funding (from the state funding formula).
- Funding high poverty and special needs students (from state and federal targeted allocations and grants).

Expenditure patterns differ from the like-sized districts with tribal lands in the following ways:

- La Conner hires fewer staff, but pays higher average salaries.
- La Conner spends more money on teaching and teaching support in the Basic Education program and less on special-need student populations. One exception is Special Education where La Conner spends more.
- La Conner spends somewhat less on non-instructional programs (Food Service and Transportation).
- La Conner spends more on preschool and early childhood education.
- La Conner spends more on extracurricular activities.

SECTION 1. COMPARISON DISTRICT ANALYSIS

The review evaluated the extent to which school district characteristics such as those listed below affect school district revenues and expenditures per student.

- District size (student enrollment)
- Characteristics of the student population
- State funding formulas
- Eligibility for state and federal grants
- Staff salaries
- Local nontax donations and support
- Assessed property values and local taxing capacity

The review found that differences in these district characteristics affect both the educational needs of the district and the availability of funding. State and federal education policies adjust funding formulas and provide grants to promote equal educational opportunity for all students. Funding is designed to provide more money where needed. A well-managed school district attempts to

qualify for and receive maximum state and federal funding to meet the needs of students in the district. Often additional funding requires specialized application and some grants are competitive. This creates differences in the programs provided and the funding available to spend on the programs.

The review found that much of the difference between La Conner's expenditures per student and other Skagit County school districts can be explained by the presence of tribal land, the Native Americans served, and additional funding provided by the federal government and the Swinomish Tribe.

La Conner's smaller than average size affects the efficiency of administration and increases the cost of providing supporting services. The state basic education funding formula recognizes these impacts by providing more money for the operation of small high schools.

Exhibits A and B show some of the factors affecting school district funding and per student expenditures.

EXHIBIT A—Comparison Districts—Skagit County

While La Conner is like neighboring Skagit County school districts in some respects, there are significant differences in its education needs.

La Conner is the only district in Skagit County serving an Indian reservation. This qualifies the district for federal funding known as Impact Aid. Impact Aid is available to school districts that can document that more than 3 percent of their students are "federally connected." This includes students who live on federal land such as military bases, Indian reservations, and students whose parents are employed on federal lands.

The additional funding is provided for two purposes:

- To offset lost tax revenue for federal lands.
- To pay for the additional cost of educating children of military families due to their mobility and Native American students due to cultural differences.

The La Conner School District successfully applied for and received federal Impact Aid.

When La Conner is compared to other Skagit County school districts, we see differences that affect funding:

- Students from the Swinomish Indian reservation make up 34.1 percent of La Conner's student population. The unique educational needs of these students and the presence of the tribal lands qualifies the district for revenue equal to \$3,325 per student. La Conner also receives local revenue and support from the Swinomish Tribe.
- La Conner's small student enrollment qualifies the district for small high school funding of \$431 per student (all grades). This money helps the district offer a full high school curriculum including languages, advanced mathematics, etc.
- A higher percentage of students in poverty qualifies the district for additional state and federal money for disadvantaged students.

Concrete is the only other district in Skagit County qualifying for small school funding. Conway is smaller, but does not operate a high school, and therefore, does not receive small high school funding.

EXHIBIT B—Comparison Districts With Tribal Lands

The WASA review identified three school districts with about the same enrollment as La Conner with tribal land in the district’s service area. These are:

- Wellpinit—Serving the Spokane Indian Reservation.
- Cape Flattery—Serving the Makah Reservation.
- Mount Adams—Serving the Confederated Tribes of the Yakama Nation.

Average enrollment of the three districts differed from La Conner by only two FTE students in the 2015–16 school year. Like La Conner, the three districts qualify for Federal Impact Aid and small school funding; and total expenditures are about the same. However, it is not a perfect comparison. These districts have far less property outside the reservation and are very restricted in local tax revenue. They make up for some of the difference by qualifying for more state Local Effort Assistance revenue (also known as state levy equalization). These districts also have higher percentages of poverty and high need students.

All things considered, average revenue per student in these districts is only \$338 (2 percent) per student more than La Conner. Total expenditures are only \$226 (1 percent) less. This provides a useful comparison when evaluating expenditures per student.

SECTION 2. SCHOOL DISTRICT REVENUE ANALYSIS

Exhibits C and D compare La Conner’s revenues with the two sets of comparison districts.

More revenue is not a bad thing for a school district. We would not criticize a farmer for spending too much money without considering the crops produced and the profit from their sale. School districts are not for profit, but the same concept applies. In evaluating a school district’s spending, we need to consider the educational services they provide and the revenues they receive for those services. With more money, school districts can provide more services to meet student needs. The challenge is not always to spend less, but to spend wisely to produce student success.

Understanding these and other revenue sources will help explain how and why money is spent.

EXHIBIT C—2015–16 General Fund Revenues Per Student—Skagit School District

La Conner receives \$4,625 per student more than the average of the six neighboring Skagit County school districts.

La Conner’s Local Tax revenue of \$2,172 per student is \$500 (19 percent) less than the average for other Skagit County school districts. This revenue includes portions of 2015 and 2016 maintenance and operation (M&O) levies (\$1,595,000 and \$1,345,000 respectively). La Conner’s budgeted 2016–17 Local Tax revenue is budgeted to be about \$300 per student lower due to the \$995,000 levy in 2017.

La Conner's Local Nontax Support of \$1,262 per student is \$967 per student higher than other Skagit County school districts. Of this amount, \$590 is in Account 2500 Gifts and Donations. This includes \$387,200 or \$628 per student from the Swinomish Tribe as a share of the tribe's assessment of non-native homeowners on tribal lands. Another \$325 is in Account 2900 Local Nontax Unassigned. This is primarily money donated by the Swinomish Tribe to help support a preschool program serving both tribal and non-tribal students. The preschool program is over and above what other Skagit County school districts provide for children before they enter kindergarten.

La Conner's State General Purpose revenues are 6 percent higher than Skagit County neighbors due to small high school funding and a slightly higher staff mix factor. La Conner receives approximately \$431 per student additional in the state funding formula for operating a small high school. Concrete is the only other school district in Skagit County receiving small school funding.

La Conner's State Special Purpose funding is somewhat higher for Special Education and lower in several of the other "categorical" programs. Additional funding of \$115,000 (\$187 per student) in Revenue 4300 is state funding for the district's Early Childhood Education and Assistance Program. ECEAP is the state equivalent of the federal Head Start program. No other school district in Skagit County is reporting ECEAP revenue.

No other Skagit County school district contains an Indian reservation or serves more than 2.3 percent Native American students. Due to the tribal lands in the district, La Conner receives Federal Impact Aid in two accounts:

- 5300 Impact Aid Maintenance and Operations revenue of \$3,321 per student is "general purpose" in the sense that it can be used for any operating purpose. Expenditures of the money are not tracked, but are primarily in the Basic Education programs 01 Basic Education and 97 Districtwide Support.
- 5329 Impact Aid Special Education supports La Conner's special need students in Program 29 Special Education—Other Federal.

To qualify, a district must document 3 percent or more of its students who are "federally-connected." That includes students who live on federal lands (primarily military bases and Indian reservations) or whose parents work on federal lands. This funding does not come automatically. The district must collect information from each family to identify federally-connected students.

La Conner's Federal Special Purpose funding is \$96 per student (11 percent) higher due primarily for disadvantaged students in Revenue 6151 ESEA Disadvantaged (also known as Title 1). La Conner also qualifies for \$53 per student in Revenue 6298 Indian Education—Federal. No other Skagit County school district qualifies for this funding. La Conner's Federal Special Purpose revenue is lower in most other categories.

La Conner's Revenue from Other School Districts includes payments from Conway School District for serving high school aged students residing in Conway and attending La Conner High School. Conway does not operate a high school. Conway also makes payments to Mount Vernon School District.

La Conner's revenue of \$183 per student in Revenue 8100 Revenues from Other Governmental Entities is a reimbursement for lease of buildings at Skagit Valley Community College used by the Skills Center, run now by Mount Vernon School District. In the future, Mount Vernon will make this lease payment directly to the college; and La Conner's per student revenues and expenditures will be reduced by the \$183 shown here.

La Conner's revenue of \$171 per student in Revenue 9900 is a reimbursement of the General Fund by other funds. The Capital Project Fund reimburses the General Fund for capital expenditures that can be paid for by the Capital Projects (Technology) levy. Also, the Transportation Vehicle Fund reimburses the General Fund for money loaned to the TVF fund to repay non-voted debt.

EXHIBIT D—2015–16 General Fund Revenues—Selected Districts With Tribal Lands

La Conner's Local Tax revenue exceeds the average of the three Impact Aid districts by 1,830 per student (536 percent). La Conner can collect more in property tax than the comparison districts because La Conner's tax base includes much more residential, industrial, and commercial property outside the Indian reservation and including the City of La Conner. The three Impact Aid districts have very little property and fewer tax payers outside the reservation. As a result, their tax rate for a typical levy far exceeds the state average.

The three other districts can make up for their limited property tax revenue with state Local Effort Assistance revenue (also known as levy equalization). The state compensates these "property poor" districts by providing state matching money for the local levy. All three districts receive LEA, which is shown in Revenue 3300, averaging \$1,249 per student. La Conner receives a much smaller amount of LEA. When Local Tax and LEA revenue are combined, La Conner's revenue still exceeds comparison districts by \$710 per student. La Conner's reduced M&O levies for 2016 and 2017 reduce this difference.

La Conner's Local Nontax Support is higher than comparison districts by \$1,033. This results from Swinomish Tribe's donations described above. Other comparison school districts with tribal lands are not so fortunate in the financial support received from the local tribes.

La Conner's State General Purpose revenue is \$1,613 lower than comparison districts. Most of the difference (\$1,120 per student) is due to the comparison district's eligibility for Local Effort Assistance, which helps equalize property tax levy revenue. La Conner's 3100 Apportionment (Basic Education Allocation) is \$513 lower, because of about \$838 less in small school funding. This is off-set by more funding for La Conner's higher-mix factor.

La Conner's State Special Purpose funding is lower primarily due to smaller percentages of high poverty and high need students.

La Conner's Federal General Purpose revenue is lower due to the lower amount of Federal Impact Aid per student.

La Conner’s Federal Special Purpose funding is lower due to lower poverty and high need students.

The \$183 per student recorded as Revenue from Other Entities is reimbursement for Skills Center lease payment to the community college, which in the future will be eliminated.

SECTION 3. FTE STAFF EQUIVALENT ANALYSIS

Exhibits E and F compare La Conner staffing levels with the two comparison groups.

The numbers shown for the comparison districts are the number of “equivalent” staff units the districts would have if the district’s staff/student ratios are applied to an enrollment equal to La Conner’s (616.21 FTE students). The “Difference” shown, therefore, represents the additional staff FTE employed by La Conner over the average equivalent staff in comparison districts.

The analysis shows that La Conner has the equivalent of 16.86 more staff FTEs than other Skagit County school districts. La Conner has the equivalent of 11.88 fewer staff FTEs than the three districts with tribal lands. These differences are described in more detail below.

EXHIBIT E—FTE Staff Equivalents—Skagit County School Districts

The “equivalent” staff calculation indicates that La Conner has 2.13 FTE (74 percent) more certificated administrators. One quarter of that amount is explained by the fact that all districts have one superintendent. Smaller districts, therefore, have more superintendents per student. Another quarter of the difference results from the need for principals at La Conner’s smaller schools. The remainder reflects additional administrators at the district and school levels, also influenced by school size.

La Conner employs 10.85 (29 percent) more certificated instructional staff than comparison districts. This is due to the greater number of classroom teachers. The number of the certificated staff such as counselors, librarians, and health professionals is lower than the comparison districts.

La Conner employs 3.88 (15 percent) more classified staff than comparison districts. Most of these additional staff are instructional assistants. Directors and supervisors are higher and office clerical workers are lower.

This staff analysis suggests that La Conner spends most of its additional funding for classroom instruction. Of the total additional staff of 16.65 FTE, 14.73 FTE are classroom teachers or instructional assistants.

EXHIBIT F—FTE Staff Equivalents—Selected Districts With Tribal Lands

La Conner employs slightly fewer certificated administrative staff than like-sized districts with tribal lands. More administrators are assigned to district-level responsibilities and fewer to the schools as principals and school administrators. Differences in certificated administrative staffing may reflect differences in organizational structure.

Certificated instructional staff FTEs are about equal. Like La Conner, the comparison districts use most of their enhanced funding for additional teachers and classroom assistants.

La Conner employs fewer classified staff such as office clerical, food service, custodial, and other skilled trade employees. La Conner employs more classified employees in a director/supervisor role.

NOTE: Fulltime equivalents (FTEs) for classified staff are based on an 8-hour, 260-day work year. School year employees such as instructional assistants, food service workers, and bus drivers work part time for 180+ days per year. The number (headcount) of employees in these positions is far greater than the FTE shown.

SECTION 4. AVERAGE SALARY ANALYSIS

Exhibits G and H compare La Conner's average salaries with the comparison districts.

La Conner's average salaries for certificated administrative and certificated instructional staff are very close to the average for other Skagit County school districts. Only classified staff salaries are higher.

However, when compared to districts with tribal lands, La Conner salaries are 20 percent or higher in all three categories. La Conner's lower staff FTE, when combined with higher salary, helps to bring staffing costs more into line with the three districts with tribal lands.

EXHIBIT G—Average Salary Comparisons—Skagit County School Districts

This exhibit shows average salaries by position reported to OSPI based on employment on October 1 of the school year.

Most of La Conner's certificated administrative staff salaries are slightly below other Skagit County school districts. This is typical, as smaller-sized school districts usually pay administrators less than larger districts.

Average salaries paid to certificated instructional staff are almost the same. Teacher base-salary pay is 1 percent higher reflecting the 1 percent higher mix factor. Teacher additional pay is 3 percent lower, possibly reflecting less supplemental pay for additional time responsibilities and incentives (TRI). Other certificated instructional staff (CIS) salaries are lower, possibly reflecting the lower training and experience of La Conner employees holding these positions.

La Conner pays classified staff more on average. Instructional assistants are paid about 9 percent more on average. La Conner's higher percentage of director/supervisor FTEs is contributing to the higher average pay.

The average salary for bus operators may be an anomaly. This analysis does not break out all salaries for custodians, mechanics, maintenance workers, and other classified positions.

NOTE: As noted above, many classified employees work part time and do not work during the summer. Salary figures shown on the exhibit convert their salaries to fulltime.

EXHIBIT H—Average Salary Comparisons—Selected Districts With Tribal Lands

La Conner’s certificated administrative salaries are higher by \$19,344 (20 percent). Several factors may contribute to this difference. The three selected districts are in economically depressed areas, possibly with a lower cost of living and housing. Wages in rural and remote areas tend to be lower due to the lack of competition in the labor market. By contrast, La Conner is in the Puget Sound corridor where the cost of living is higher and there is more competition in the labor market. It is also possible that beginning administrators get their first jobs in smaller, rural districts.

La Conner’s certificated instructional salaries are \$13,110 (22 percent) higher than comparison districts. About half of this difference is due to the lower training and experience (mix factor) of staff in these districts. The other half is due to lower supplemental pay. Teachers in these districts may lack the bargaining power to command additional pay for some of the reasons described in the paragraph above.

La Conner’s classified staff are paid \$11,815 (27 percent) more on average for a fulltime employee. The larger number of director/supervisor FTEs in the La Conner School District average is a factor. The other factors relate to the socio-economic reasons described above.

NOTE: Average salaries are for a fulltime, full-year position as noted above. Many classified workers are employed part time.

SECTION 5. EXPENDITURE BY OBJECT ANALYSIS

All school district expenditures are reported to the state with three codes: Program, Object, and Activity. This report provides comparisons from all three perspectives. Total district expenditures are the same in all Exhibits K through L, but viewed from three perspectives.

“Objects” of expenditure tell you “what” you are paying for. A book is a Supply or Material. A utility bill for electricity is a Purchased Service. An employee’s pay is Salary. Benefits include the employer’s share of social security, unemployment insurance, retirement plans, and health benefits. Travel includes only employee travel costs such as mileage, lodging, airfare, etc. Capital Outlays are for major equipment and building expenses, many of which can be charged to the Capital Projects fund.

Debit and Credit Transfers represent equal off-setting charges between programs; transfers do not affect total expenditures of the districts. The most common Debit/Credit transfers are for extracurricular student transportation. The Pupil Transportation program bills the Basic Education program or the other appropriate instructional program. (The state does not pay school districts for extracurricular transportation.)

EXHIBIT I—General Fund Expenditures Per Student— Skagit County School Districts—By Object

La Conner’s Debit/Credit transfers are higher than neighbors due to higher charges for bussing students for extracurricular activities, primarily sporting events, and to a lesser degree, club activities.

La Conner’s expenditures for Certificated Salaries are \$1,435 (28 percent) higher than neighboring Skagit County school districts. Because salary levels are similar, most of the difference is due to additional certificated staff employed by La Conner as noted in Exhibit E.

La Conner’s expenditures for Classified Salaries are \$784 (36 percent) higher than neighbors. This reflects both more classified employees and higher average salaries paid to these employees. A higher percent of supervisory classified staff may also be a factor in the higher average.

Higher employee benefits follow directly from higher salary expenditures. For example: social security payments are a percentage of salary paid. Costs include payments for federal social security and Medicare, state retirement systems, and employer contributions to employee health benefits.

La Conner expenditures for Supplies and Materials exceed comparison districts by \$494 per student. Largest contributors to the difference are:

- Food \$160
- Teaching Supplies \$ 70
- Extracurricular \$ 62
- Maintenance of Buildings \$ 43
- Business Office \$ 39
- Curriculum \$ 33

La Conner expenditures for Purchased Services exceed comparison districts by \$1,135 (89 percent) per student. Largest contributors to the difference are:

- Teaching \$276
- Utilities \$268
- Operation of Buildings \$245
- Maintenance of Buildings \$137
- Board of Directors \$101 (includes two election costs)

La Conner expenditures for Travel exceed comparison districts by \$74 (249 percent) per student. Higher costs for extracurricular travel account for three-quarters of the difference.

La Conner had no expenditures for Capital Outlays in 2015–16, possibly reflecting the availability of Capital Projects funding for these expenses.

EXHIBIT J—General Fund Expenditures Per Student—Selected Districts With Tribal Lands— By Object

La Conner expenditures for Certificated Salaries exceed comparison districts by \$625 (11 percent) per student. This difference is explained by higher average salaries for certificated staff as described in Exhibit H.

La Conner expenditures for Classified Salaries are lower than comparison districts by \$83 (3 percent) per student. La Conner employs fewer classified staff as shown in Exhibit F at higher average salaries as shown in Exhibit H.

La Conner’s expenditures for Supplies and Materials are lower than comparison districts by \$152 (12 percent) per student. Contributing to the difference are:

- Teaching (\$129)
- Motor Pool (\$ 89) (Two comparison districts operate a Motor Pool.)
- Maintenance of Buildings (\$ 38)
- Food (\$ 22)
- Food Operations (\$ 22)
- Extracurricular +\$ 56
- Instructional Technology +\$ 40

La Conner’s expenditures for Purchased Services total about the same as comparison districts. However, the activities of expenditure differ:

- Health Services (\$303) (Comparison districts contract instead of hire.)
- Information Systems (\$108) (May reflect accounting differences.)
- Building Security (\$ 95)
- Property & Liability Insurance (\$ 75)
- Operation of Buildings +\$254
- Teaching +\$162
- Payments Other Districts +\$ 75
- Board of Directors +\$ 66 (Elections again.)

La Conner’s expenditures for Travel are \$83 (44 percent) per student lower than comparison districts. Travel costs are higher in most activities in the comparison districts, possibly due to their more remote locations.

SECTION 6. EXPENDITURE BY PROGRAM ANALYSIS

“Programs” are the primary unit of management. Usually one primary administrator is responsible for managing a program. Programs usually have one or more dedicated sources of revenue. State and federal rules define the purpose of the program and allowable activities within the program.

Program 01 Basic Education is the largest program. It is a catch-all program for instructional purposes. It is funded with state apportionment (basic education) dollars, levy dollars, donations, and other sources. All the other programs have more specific purposes and usually have dedicated funding sources.

EXHIBIT K—General Fund Expenditures Per Student—Skagit County School Districts—By Program

Of the total \$4,607 difference in expenditures per student, the two programs showing the greatest difference were:

- Program 01 Basic Education \$2,808 61 percent
- Program 97 Districtwide Support \$1,380 30 percent

It is notable that La Conner does not offer Program 02 Alternative Learning Experience or Program 31 Vocational Education. This reflects a choice of spending money on the regular classroom.

Of the \$2,808 in Program 01 Basic Education, these activities account for most of the difference:

- Teaching \$1,912 42 percent
- Extracurricular \$ 573 12 percent
- Supervision of Instruction \$ 237 5 percent
- Learning Resources \$ 115 2 percent

This shows an emphasis on students and student learning that should be a comfort to parents and the community. La Conner’s chief instructional strategy appears to be placing more teachers and instructional assistants in the Basic Education classroom. This includes:

- Smaller class sizes in grades kindergarten through three.
- Fulltime instructional assistants in each elementary classroom.
- Small high school classes for specialized classes such as foreign language and advanced mathematics.

Large expenditures for extracurricular activities show a commitment to engaging students outside the classroom. These expenditures give students more opportunities to participate in sports, join clubs, and travel at school expense.

Higher expenditures in Other Instructional Programs are explained primarily by:

- Program 79 Other \$337 7 percent
- Program 29 Special Ed Other Federal \$205 4 percent
- Program 51 ESEA Disadvantaged \$124 3 percent

These programs have dedicated funding sources targeting special need populations. Program 79 expenditures are for a Head Start program for preschool students. La Conner is the only school district in Skagit County offering this program. Program 29 is funded with the federal Impact Aid allocation for Special Education.

Of the Non-Instructional Programs, the largest difference is \$228 per student in Program 98 Food Service. Two-thirds of this amount goes for higher food costs, which is attributable in part to the district’s effort to buy and serve locally-grown products.

EXHIBIT L—General Fund Expenditures Per Student—Selected Districts with Tribal Lands—By Program

La Conner’s expenditures per student are greater than selected district with tribal lands, \$226 per student or one percent.

Exhibit M also shows the district’s emphasis on classroom instruction. La Conner spends \$2,077 more per student in Program 01 Basic Education. This includes higher per student spending for the following activities:

- Teaching \$1,598
- Extracurricular \$ 404
- Supervision of Instruction \$ 265
- Instructional Professional Development \$ 219
- Learning Resources \$ 129

Expenditures per student in Program 01 Basic Education are lower than comparison districts in the Principal’s Office and Health and Related Services.

In Program 97 Districtwide Support, La Conner’s expenditures per student are lower by \$405 per student or 11 percent.

La Conner expenditures per student are generally lower in most Other Instructional Programs. This reflects La Conner’s relatively lower percentage of students in poverty. An exception is Special Education, where La Conner’s per student expenditures are somewhat higher.

In the Non-Instructional Programs, La Conner’s expenditures are somewhat lower than comparison districts.

SECTION 7. EXPENDITURE BY ACTIVITY ANALYSIS

“Activities” describe what is being done with the expenditure or the purpose. Major categories are administration, teaching, food service, etc.

EXHIBIT M—General Fund Expenditures Per Student—Skagit County School Districts—By Activity

Of the total \$4,607 difference in expenditures per student, \$2,467 is in Teaching and Teaching Support activities. Of this, \$2,107 is in Teaching and \$569 is in Extracurricular.

La Conner expenditures per student are higher than other Skagit County school districts by \$1,182 per student in all Administrative activities except Activity 14 Human Resources. The largest differences are:

- Superintendent’s Office \$333
- Business Office \$249
- Supervision of Instruction \$235
- Supervision Buildings & Grounds \$115
- Board of Directors \$106

To some degree, higher expenditures per student can be explained by the smaller district size and economies of scale achieved by the larger school districts in Skagit County.

Food Service expenditures are higher primarily due to higher food costs.

Pupil Transportation costs are about the same as neighboring districts after transfer of extracurricular transportation charges to Program 01.

La Conner Building and Grounds expenditures are \$942 per student or 94 percent higher. All activities are higher led by:

- Operation of Buildings (custodial) \$265
- Utilities (water, sewer, gas, electricity) \$257

Expenditures for miscellaneous Other actives are slightly lower, primarily due to lower charges to Information Systems. This may be more reflective of a difference in accounting practices with neighboring districts.

EXHIBIT N—General Fund Expenditures Per Student—Selected Districts With Tribal Lands—By Activity

This analysis of expenditures by activity, once again, displays La Conner’s relative emphasis on Teaching and Teaching Support when compared to selected districts with tribal lands.

La Conner expenditures in this category are higher by \$747 per student or 7 percent. This is a net increase including both higher and lower expenditures as shown below:

- Teaching \$549
- Extracurricular \$404
- Learning Resources \$127
- Guidance & Counseling (\$162)
- Health & Related Services (\$354)

La Conner Administration expenditures per student are higher by \$77 per student or 3 percent. Notable contributors to this difference include:

- Supervision of Instruction \$296
- Supervision Buildings & Grounds \$110
- Board of Directors \$ 59
- Principal’s Office (\$466)

The differences in Supervision of Instruction and Principal’s Office reflect different organizational structures and job assignments, and may be off-setting.

La Conner’s Food Service and Pupil Transportation expenditures per student are lower than comparison districts. The lower Pupil Transportation costs may reflect the size and geography of the comparison districts. Larger districts with a scattered student population result in higher bussing costs.

La Conner’s Building and Grounds expenditures are slightly lower with more being spent on Grounds and Operations (custodial) costs and less on Maintenance of Buildings. These costs may be affected by the age and condition of buildings.

La Conner’s miscellaneous Other expenditures are lower by \$355 per student due to lower charges to information systems, lower property and liability insurance charges, and to the existence of a Motor Pool in one Cape Flattery.

SECTION 8. LEVY AND LEVY EQUALIZATION ANALYSIS

Exhibits O and P describe the money collected from local property tax and the state Local Effort Assistance (LEA) funding which is intended to partially equalize local property tax revenues.

M&O levies require approval by voters in the district and are intended for optional “non-basic” needs. The state limits these levies to 28 percent of state and federal revenues in most districts, although some districts are allowed higher percentages. A district’s maximum M&O levy is known as the district’s “Levy Authority,” which is shown on Exhibits O and P.

In the *McCleary* decision, the State Supreme Court has found that M&O levies are being used to fund basic education needs in many districts. When the Legislature addresses this problem with additional funding for basic needs, school district levy authority is likely to be reduced below current levels.

Property tax revenue is considered a general-purpose revenue, and therefore, co-mingled with other state and federal revenues. There is no clear way to distinguish which expenditures are funded with levy dollars. However, there is a law that levy dollars are not to be spent for “basic education.” The state has struggled to define exactly what this means. Extracurricular activities are generally considered to be non-basic. Enhancements (nice to have but not necessary) are also non-basic.

In setting the M&O levy amounts to submit for voter approval, school boards consider the interests and priorities of the community. Because expenditures of this money are not accounted for separately, it can be difficult to determine where levy dollars go. As a practical matter, levy dollars go to the programs and activities that will be eliminated or reduced if the levy does not pass.

EXHIBIT O—Levy Facts—Skagit County School Districts

This exhibit shows facts about the property values, M&O levies, and state Local Effort Assistance funding.

Prior to the Great Wolf Lodge ruling, La Conner assessed property values per student were roughly equivalent with the county average. Removal of properties located on tribal land reduced La Conner’s assessed valuation per student by about one quarter and assessed valuations per student were 21 percent lower than the average for neighboring Skagit County districts in 2016. The La Conner School Board rolled back (reduced) the 2016 M&O levy to keep the tax rate nearer to historical averages and about 10 percent below the average for other Skagit County districts. The 2016 certified levy was \$540 per student (19.8 percent) below the average for comparison districts.

La Conner’s lower assessed values allowed the district to qualify for state Local Effort Assistance (LEA) in the amount of \$110,545 or \$179 per student. Other Skagit County districts also qualify for LEA, so La Conner’s combined levy and LEA revenue was \$593 per student (20.1 percent) below the average for other Skagit County districts.

EXHIBIT P—Levy Facts—Selected Districts With Tribal Lands

La Conner assessed valuation per student is higher than comparison districts with tribal lands by 360 percent. These districts have relatively little property located outside of tribal lands. By contrast, commercial, industrial, and residential properties in and around the City of La Conner are in the school district's tax base and bring down the tax rate for La Conner's M&O levy.

Comparison districts pass M&O levies with an average tax rate of \$1.73021 per thousand dollars of assessed valuation. La Conner with a tax rate of \$2.81776/\$1,000 is 63 percent higher.

Great disparities in taxable property values within districts cause inequity in the ability of districts to collect local levy money. The state addresses these inequities by providing state money known as Local Effort Assistance or Levy Equalization to the "property poor" districts.

Due to low taxable property values, the comparison districts qualify for large amounts of state Local Effort Assistance. Wellpinit receives \$18.748 state dollars for every dollar paid by local tax payers. On average, comparison districts receive \$1,218 per student in LEA. When combined with property tax levies, the districts receive an average of \$1,564 per student. By contrast, La Conner receives \$2,362 per student which is \$798 (51 percent) more per student.

CONCLUDING REMARKS

The La Conner School District's mission is to provide a quality education for the district's children. The district's "Strategic Road Map" lays out the district's plans and priorities for fulfilling that mission. The district is relatively fortunate in securing funding to carry out those plans. Spending more money to educate children is not a bad thing if it is supported by revenue and contributes to student success. You would not fault a farmer for spending more money to cultivate or fertilize a crop if it made the crop more productive and profitable. Although school districts are not for profit, a similar concept applies. The question is not only "Is the district spending too much?" but "Is the spending producing the results we want?"

This district asked for this report to provide transparency to the community and to inform dialogue and decision making. The report informs a dialogue not only of how much to spend, but how best to spend. In those areas where La Conner spends more than comparison districts, it is fair to ask, "Is the additional spending helping students?" In areas where La Conner spends less, it is fair to ask, "Should the district be spending more?" This report makes no recommendations for changing spending priorities or patterns. These are decisions for the district leadership and the community.

It should be noted that the districts made several budget changes in the 2016–17 school year which would change the results shown above.

- The 2017 M&O levy was reduced from \$1,345,000 to \$995,000.
- Athletic, Food Service, and other fees were increased.
- 1.0 FTE administrative position was eliminated.
- 2.0+ certificated staff positions were eliminated.
- Extracurricular costs were cut by eliminating wrestling, golf, and C team coaching staff.
- Food service staff and operating costs were reduced.
- Staffing reductions were made in custodial and grounds and preschool.

This review has not attempted to quantify the impacts these changes may have on results shown in this report.

SPECIAL THANKS

WASA extends a special thanks to Peg Seeling and Bonnie Haley for providing information and support over the holiday season to complete this review quickly.