

School Board Action Report



DATE: June 20, 2007
FROM: Superintendent Raj Manhas
STAFF PERSON: Art Jarvis, Phone: 20017, aojarvis@seattleschools.org

TITLE AND BRIEF DESCRIPTION

FY 2008 Operating Budgets

For Introduction: June 20, 2007
For Action: July 11, 2007

BRIEF HISTORY

Each year the District adopts operating budgets covering expenditures during the next fiscal year for general educational programs and operations. The Finance Committee has reviewed many aspects of the central operating budgets, including looking for operational efficiencies. The review included aligning academic priorities within expenditures and evaluating operation functions as they support academic needs. This resolution covers expenditures during FY 2007-08 for the General Fund, Debt Service Fund, Transportation Vehicle Fund, and Associated Student Body Fund.

RECOMMENDED MOTION

I recommend approval of the following motion:

I move the adoption of Resolution 2006/07-16, adopting the 2007-08 General Fund, Debt Service Fund, Transportation Vehicle Fund, and Associated Student Body Fund appropriations.

ISSUE

General Fund

The 2007-08 General Fund Budget is recommended at \$519,007,997. The General Fund Budget includes a total of \$310,624,016 for Teaching activities; \$68,294,272 for Teaching Support; \$29,062,115 for Principal's Office activities; \$15,473,480 for Core Administration activities; and \$95,554,114 for Other Support activities.

General Fund revenue is comprised of \$428.1 million in non-grant funds, \$77.9M in grant funds, and \$13.0 million in grant capacity. The \$13.0 million capacity for grants is a placeholder for potential spending in the event that new grants are received. Expenditures will not be made against grant capacity unless actual revenue is received.

Transportation Vehicle Fund

The Transportation Vehicle Fund Budget is recommended at \$15,120. The budget is used for major repair to district owned buses.

Associated Student Body Fund

The Associated Student Body Fund Budget is recommended at \$5,428,966. The budget is used to support varied Associated Student Body activities.

Debt Service Fund

The Debt Service Fund Budget is recommended at \$51,138,713. This fund will be used to pay the John Stanford Center for Educational Excellence Series A Bonds, Energy Retro Fit Loan, Qualified Zone Academy Bonds and new Capital Fund Series A and B BEX III Bonds.

ANALYSIS

Options	Pros & Cons of Each
<p>RECOMMENDATION: Approve the General Fund, ASB Fund, Debt Service Fund, and Transportation Fund Budgets as proposed.</p> <p>ALTERNATIVES</p> <p>1. Modify the General Fund, ASB Fund, Debt Service Fund, and Transportation Fund Budgets</p> <p>2. Do not approve any General Fund, ASB Fund, Debt Service Fund, or Transportation Fund budgets at this time.</p>	<p><u>Pros:</u> Approval affirms budget capacity and necessary timing for implementation.</p> <p><u>Cons:</u> Non-approval requires reforming planned budgets and may not align with contractual obligations.</p> <p><u>Pros:</u> May address un-programmed needs.</p> <p><u>Cons:</u> May contribute to “ad hoc” non-prioritized spending decisions.</p> <p><u>Pros:</u> None</p> <p><u>Cons:</u> The District will cease all General Fund, ASB Fund, Debt Service Fund, and Transportation Fund related activities; suspend or terminate contracts and lay off staff effective August 31, 2007. Resuming work will be very expensive and result in overruns.</p>

CONCLUSION

Approval of the operating budgets is necessary in order to allow schools, educational support programs and administrative functions to continue operating. This resolution approves the recommended operating budgets, as introduced to the Board on June 20, 2007.

TIMELINE FOR IMPLEMENTATION

Expenditures implementing this budget will occur during FY 2007-08.

**SEATTLE SCHOOL DISTRICT NO. 1
RESOLUTION 2006/07-16**

RESOLUTION 2006/07-16

WHEREAS, the Board of Directors of Seattle School District No. 1, in compliance with RCW 29A.505.050 and 28A.505.060, has held a hearing on the budget for September 1, 2007 to August 31, 2008;

WHEREAS, the Board of Directors has given due consideration and has fixed and determined the General Fund appropriation to be \$519,007,997;

WHEREAS, the Board of Directors has given due consideration and has fixed and determined the Transportation Vehicle Fund appropriation to be \$15,120;

WHEREAS, the Board of Directors has given due consideration and has fixed and determined the Associated Student Body Fund appropriation to be \$5,428,966;

WHEREAS, the Board of Directors has given due consideration and has fixed and determined the Debt Service Fund appropriation to be \$51,138,713;

NOW, THEREFORE BE IT RESOLVED that the above-referenced operating budgets for 2007-08 be adopted.

BE IT FURTHER RESOLVED that the secretary file copies of the adopted budget with the Puget Sound Service District No. 121 in accordance with RCW 28A.505.060.

Cheryl Chow, President

Michael DeBell, Member

Darlene Flynn, Vice President

Sally Soriano, Member

Mary Bass, Member

Irene Stewart, Member

Brita Butler-Wall, Member

ATTEST: _____
Dr. Maria Goodloe-Johnson,
Secretary, Board of Directors
Seattle School District No. 1
King County, Washington



A Message From Superintendent Raj Manhas

As I conclude my service to the Seattle Public schools, it is my pleasure to introduce this recommended budget for 2007-2008. For me this is especially significant in light of the difficult financial journey we have come through together.

The FY 07-08 recommended budget represents three extremely important principles: a) the budget is driven by academic goals; b) the operating budget is balanced and sustainable; and, c) the budget accounts for structural pressures that historically create troublesome deficits.

This budget accommodates the financial requirements for this highly complex school system, it provides capacity for the unexpected, and it provides an appropriate safety net of reserve funds sufficient to sustain the district through difficult times, if necessary.

Our goal as a District is to support the academic success of every child. This budget reflects that priority by funding key efforts of Chief Academic Officer Carla Santorno to extend learning opportunities, improve instruction, and provide new and upgraded instructional materials vital to these goals.

The District and the staff face thorny issues trying to meet inflationary demands without eroding support for academics. Examples include fuel prices, salary and benefit pressures, and costs for materials. These increased costs have been accommodated in this budget through measures to reduce other operating costs. The funding resulting from decisions made this past legislative session will also help meet these costs.

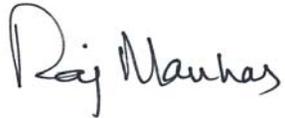
Taken together, these factors combine to create a budget that I can recommend with enthusiasm. It is a vehicle that will enable the District to move forward under the leadership of Dr. Goodloe-Johnson in the vital mission to educate all our children.

In closing, I add a cautionary note. State funding for public schools is so precarious that our public school system continues to be at high risk. We must maintain our diligence with respect to excellent management of the resources we

have, while we continue critical work to close the funding gap for public schools. Adequate, stable funding is essential to fulfilling our academic mission. We have made many hard choices, and many more hard choices lie ahead for us in Seattle. I thank you in advance for having the courage and commitment to do what is necessary to sustain our work.

Thank you for allowing me this opportunity to serve you.

Sincerely,

A handwritten signature in black ink that reads "Raj Manhas". The signature is written in a cursive, flowing style.

Raj Manhas, Superintendent

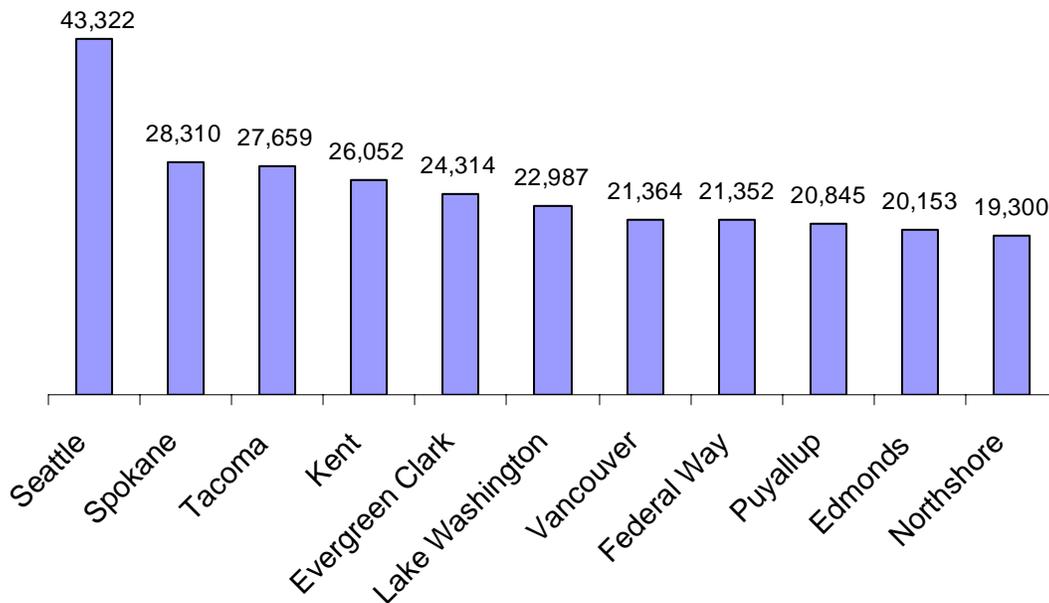
Who We Are

Our Students

Seattle Public Schools is the largest public school district in Washington State. Our student headcount, expected to total approximately 45,000 in the 2007-08 school year, comprises around 4% of the K-12 public school enrollment in the state. We serve 76% of the K-12 students attending school in Seattle. Overall enrollment is declining slightly, with trends for 2007 indicating a slight enrollment decline. We serve a diverse student population, with many of our students eligible for and receiving specialized services.

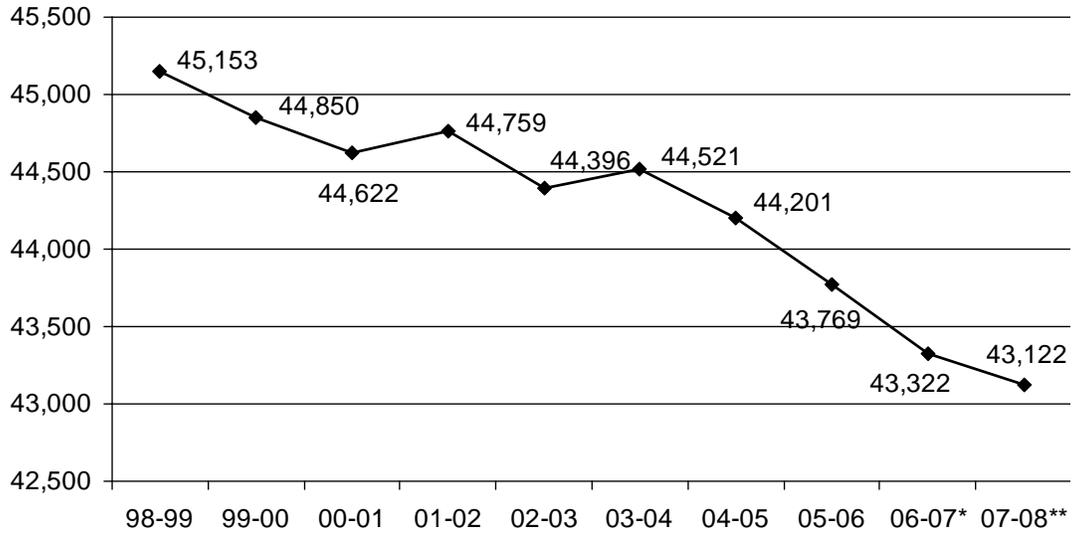
Approximately 11% of our students, representing many different languages, receive transitional bilingual services. An average of 12% of our students receive special education services, and about 38% of our students qualify for free and reduced rate lunches. This forms the basis for other supplemental, specialized educational services.

Washington's Largest School District
Average Annual K-12 FTE Enrollment



Source: OSPI Report FY 06-07 F-195

Seattle Public Schools Average Annual K-12 FTE Enrollment



* Adopted Forecast
** Recommended Budget
Source: OSPI Report 1251

The Recommended General Fund Budget for 2007-08

Detail is provided in this document regarding major changes to the FY07-08 General Fund Budget compared to the current year budget. The first section identifies major revenue changes and the second section discusses expenditure changes.

Included in the \$519 million budget recommendation is \$27.2 million of budget capacity; reserves not backed by dollars at this time. Since adoption of a recommended budget limits the total spending of the District to a set amount, (in this case \$519 million) it is necessary to build into the budget room for potential unknown revenues so they can be used. Without this capacity the District would need to request a budget extension (added spending authority) each time new funds were received. Since this process is both expensive and time consuming the District attempts to address it by adding capacity based on past needs and future predictions.

The \$27.2 million of current budget capacity includes the following: \$13.0 million of capacity for new grants or grant funding increases received after the budget is adopted, \$2.0 million to allow schools to carry into FY08 potential non-staff under spend from FY07, \$7.6 million of capacity for self-help funds to allow schools and central departments to receive and expend funds collected in FY08, and \$4.6 million to allow schools and departments to carry into FY08 any unspent self-help from FY07. None of these capacity funds are released for expenditures until final carry forwards are known or grant rewards are received.

Revenue

Seattle Public Schools receives funding from a variety of sources. Noted below are the five major resource categories: State, Local Levy, Federal, Other Revenue, and Other Resources. Following the graphs on this page is a detailed explanation of each type of funding and major changes anticipated between FY06-07 and FY07-08.

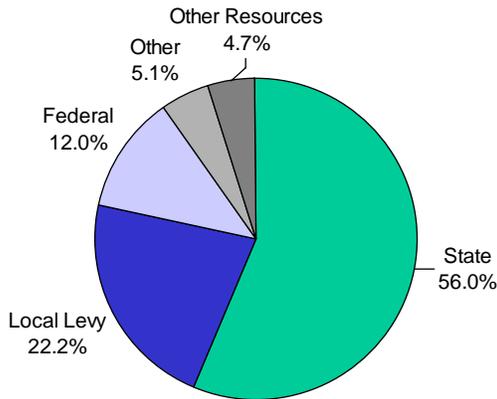
A Comparison of Resources by Type, FY06-07 and FY07-08

	FY06-07		FY07-08	
	Adopted	Recommended	\$ Change	% Change
State	271.3	290.5	19.2	7.1
Local Levy	111.7	115.4	3.7	3.3
Federal	62.6	62.1	(0.5)	(0.8)
Other	24.6	26.4	1.8	7.4
Total Revenue	470.2	494.4	24.2	5.2
Other Resources	19.8	24.6	4.8	24.1
Total Resources	\$490.0M	\$519.0M	\$29.0M	5.9%

Resource Changes by Grant and Non-Grant Funds

	FY06-07	FY07-08		
	Adopted	Recommended	\$ Change	% Change
Grant	87.3	90.9	3.6	4.1
Non-Grant	402.7	428.1	25.4	6.3
Total	\$490.0M	\$519.0M	\$29.0M	5.9%

Resources by Type FY07-08



FY07-08 Resources by Type (in millions)	
State	290.5
Local Levy	115.4
Federal	62.1
Other	26.4
Total Revenue	\$494.4
Other Resources	24.6
Total Resources	\$519.0

State Funding provides the largest portion of District funds at \$290.5 million or 56.0% of total resources. This amount is broken down between state general purpose funding and state special purpose funding and equates to an increase of \$19.2 million over FY06-07.

State general purpose funding, also known as apportionment, accounts for 41.2% or \$213.6 million of total District funds. Apportionment is calculated using the number of students attending our schools multiplied by a legislative funding formula. For FY07-08, state general apportionment is expected to increase \$9.2 million or 4.5%. The increase in funds is driven by increases for staff medical benefits, pension contributions, classified staff ratios, a 3.7% salary increase, and a phase-in of all day kindergarten. The amount is also reduced by an anticipated enrollment decline of 190 students between the adopted budget for FY06-07 and FY07-08.

State special purpose funds provide \$76.9 million or 14.8% of budgeted resources. These are state funds designated for programs such as special education, transitional bilingual education, student transportation, learning assistance, student achievement, and education enhancements. Most of these revenues are given for a specific program and are not available for other purposes. State special purpose funds are up \$10.0 million or 15%, primarily due to increases of \$3.0 million in I-728 (Student Achievement), \$2.2 million for student transportation, \$2.7 million for special education, and \$2.1 million for "flight schools" funding to help close the academic achievement gap.

Local Levy, which provides \$115.4 million or 22.2% of budgeted resources, is the second largest funding source for Seattle Public Schools. These funds come from the local operating levy approved by Seattle voters to support general education programs and operations. The amount the District can collect from voters in levy elections is set by the legislature to a percentage of our state and federal revenue levy base. Operating levy revenue is anticipated to increase by \$3.7 million or 3.3% in FY07-08 due to growth in the levy base, calculated as a percentage of the state and local revenue.

Federal Funds, provide \$62.1 million or 12.0% of Seattle Public School's resources. These monies fund programs such as Title I and Head Start. They also provide supplemental funding for special education programs and support free and reduced rate lunches in the food service program. These revenues may only be used for their specific program purpose. For FY07-08, federal funds are anticipated to decrease by \$0.5M. Detail regarding federal funds is discussed later in this document under the grant section.

Other Revenues, funding provides \$26.4 million or 5.1% of budgeted resources. Sources of this funding include investment earnings, food service fees, gifts and donations, fees for all day kindergarten and traffic education and the City Families and Education Levy. For FY07-08, Other Revenues is expected to increase by \$1.8 million.

Other Resources, increase by \$4.8 million and account for 4.7% of District total resources for FY07-08. This category includes FY06-07 school balances to be carried forward to FY07-08 and the use of reserves to support ongoing programs. It also includes transfers between funds such as Capital and Debt Service.

Significant changes to Other Resources include:

- A \$2.5 million increase in reserves used to allow carry-over of school balances. Total capacity for school and self-help carry-over in FY08 is set at \$9.5 million.
- A change in accounting procedures, which require software licenses to be charged to the General Fund with a transfer from the Capital Fund added \$827 thousand to transfers from other funds.
- Planned use of the Designated Reserve for Academic Initiatives uses \$1.3 million of additional reserves.
- Use of reserves from the insurance demutualization proceeds to fund employee medical retiree subsidy costs decreases \$800 thousand due to the exhaustion of the fund. Demutualization fund available for FY08 is \$1.4 million.
- Use of unreserved fund balance increases \$ 651 thousand for FY07-08. Total use of Unrestricted Unreserved Funds is \$5.8 million, compared to \$5.2 million in FY06-07.

Notable Changes to Grants for the FY07- 08 School Year

The following section highlights the most significant changes in grant revenue between the FY06-07 Adopted Budget and the grant revenue projections for the FY07-08 school year. In addition to funding changes, it is important to note that grants have "strings", attaching the resources to specific programs and services. As grants go away, services and programs are cut. As grants increase, only those programs and services that qualify for proper use of grant funds benefit from the increase.

Grants account for almost 18% of total District resources. Grant revenue is spread across many of the various District funding sources; and as a result, this section repeats some of the above information.

Each year the District experiences changes in grant revenues from the prior year. Our Adopted Budget for FY06-07 contained a grant revenue projection of \$87.3 million. This included funding for over one hundred individual grant programs. For the FY07-08 school year we are projecting \$90.9 million in grant revenues, an increase of approximately \$3.4 million or 4.1%.

Frequently, actual grant awards for continuing grants are not finalized until after adoption of the District's Operating budgets. This is also true for new grants as the District applies for and receives grants throughout the school year. Because the Board sets the maximum spending level prior to the beginning of the year, the District must establish a "grant reserve" to ensure it has the capacity to accept increases in grant revenues. For the 2007-2008 school year the District has established a "grant reserve" of \$13.0 million. As of the start of the year this reserve is not backed by revenue.

1. Major Grants With Projected Increases in Funding

- We anticipate a 20.0% increase in funding under the state's I-728 Student Achievement Program. This amount is due to the initiative language that increases from \$375 per student FTE in FY06-07 to \$450 per student FTE for FY07-08. Based on our projected student count, this action adds \$3.0 million to our I-728 funds. In addition to this funding change, the District is planning to carryover \$925 thousand in designated I-728 FY06-07 funds into FY07-08. These two actions increase the I-728 budget from \$18.4 million in FY06-07 to \$20.1 million in FY07-08. These funds are generally used to reduce class size, provide extended-day and extended-year activities, and to provide professional development activities to certificated classroom teachers.
- We anticipate a 7.0% increase in the federal ESEA Title I Part A from \$12.8 million to \$13.7 million. These funds are given to schools with high numbers of low-income students in grades 1-5 to assist them to meet Adequate Yearly Progress (AYP) targets. A portion of these funds is retained centrally to meet various mandated set-aside requirements under this program (i.e. equal expenditure per student for private schools, School Improvement, District Improvement, and services for homeless children).
- We anticipate a modest .2% increase in funding under the State's Learning Assistance Program (LAP) from \$3.491 million to \$3.56 million. The increase results primarily from a change in the State's per pupil amount.

2. Major Grants With a Projected Decrease in Funding

- We anticipate a decrease of 39.6% in funding from \$1.0 million to \$600 thousand under the federal Reading First Program. The purpose of this grant is to ensure that all children read at grade level in English by the end of third grade. The grant funded Reading First Programs in seven schools during the FY06-07 school year. At this time we anticipate six schools being eligible for funding in FY07-08.

- We anticipate a decrease of less than \$100 thousand in funding for the federal IDEA Part B Flow-Through Grant (Special Education), projected at \$9.7 million for FY07-08. These are federal funds that help support Special Education needs of Seattle students.

3. Grants Not Continued as of Budget Recommendation

The following grants are at the end of their funding cycle and will not be continued for the FY07-08 school year. If funding is received mid-year, programs may be reinstated after the budget is adopted.

- Seattle GEAR UP Grant. The District received \$.745 million from this grant during the 2006-07 school year. The GEAR UP grant provided college readiness support in the form of tutoring, mentoring, college preparation strategies, and teacher professional development. GEAR UP served students in grades seventh through twelfth at ten participating schools.
- Smaller Learning Communities Grant. The District received a total of \$.855 million during the 2006-07 school year under this program. The program supported the conversion of four of Seattle Public School's largest high schools into small learning communities.
- FY05-06 year was the last year of the five-year Bill and Melinda Gates Foundation Grant, which provided \$25 million over the life of the program. Carry over of unspent funds will not be available in FY07-08 for those schools that did not completely spend their allocation during the original grant period.

4. Major Grants Significantly Restructured.

- The Sloan Project at T.T. Minor Elementary School will receive \$25,000 in funding from the New School Foundation for FY07-08 even though the original agreement between the District and the Foundation has ended. The amount of \$25,000 is a reduction of 85.46% from \$172,000 awarded to T.T. Minor the previous year.

5. New Grants

There are several new grants that were approved in the Legislative session completed in April 2007 but until instructions are received from OSPI regarding allocations /applications individual school funding levels are unknown at this time.

- All Day Kindergarten \$1,036,040 – to fund all day kindergarten in high poverty schools.
- Academic Flight \$2,136,000 – to close the achievement gap for students of color and students in poverty by promoting parent and family involvement.

Expenditures

A Comparison of Budget (in millions), 2006-07 and 2007-08

District Major Activities	2006-2007 Adopted			2007-2008 Recommended			Change		
	Grant	Non-Grant	Total	Grant	Non-Grant	Total	Grant	Non-Grant	Total
Teaching	65.6	231.4	297.0	65.7	245.0	310.6	0.1	13.6	13.7
Teaching Support	19.9	41.5	61.4	23.5	44.8	68.3	3.6	3.4	6.9
Principal's Office	0.8	27.1	27.9	0.9	28.1	29.1	0.2	1.0	1.2
Core Administration	0.4	13.9	14.3	0.2	15.3	15.5	-0.3	1.4	1.1
Other Support	0.6	88.8	89.4	0.6	94.9	95.6	0.0	6.1	6.1
Total	87.3	402.7	490.0	90.9	428.1	519.0	3.4	25.4	29.0

* Numbers may not add due to rounding

The fiscal year, 2007–2008 (FY07-08) General Fund budget is expected to increase by \$29.0 million over the adopted budget for the current year. Although resources have increased, related expenditures continue to increase at a faster pace, forcing the District to restructure current resources and cut, or eliminate, activities to fund cost increases in other areas.

As identified in the above chart, expenditures have increased in all major activities, both grant and non-grant, with the exception of grants for Core Administration, which had a net decrease of almost \$300 thousand.

In non-grant expenditures, the majority of increases are being driven by rising costs for salaries, employee benefits, and transportation. Except noted throughout the remainder of this document, District activities have not increased.

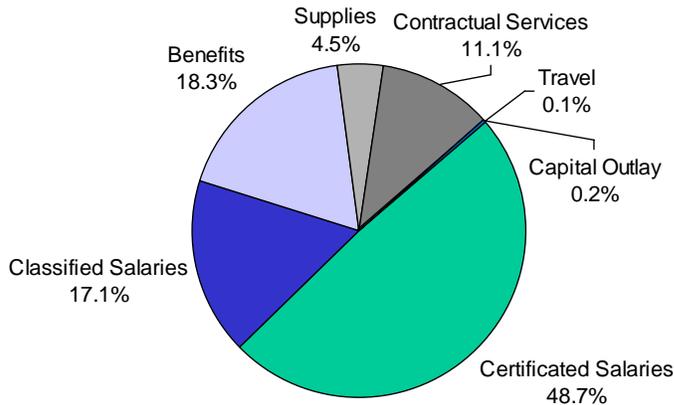
Although many grants will experience the same cost increases as non-grant activities, the effects are different. Unless noted otherwise, cost increases related to grants do not usually result in more District-wide expenditures. A more likely situation is the grant will lose buying power and be required to reduce staffing or non-staff purchases.

Major cost drivers include:

- A 3.7% cost-of-living increase for school employees approved by the state legislature. *Cost increase \$10.7 million.*
- A 3.0% contractual pay increase for certificated employees as provided in the District's negotiated agreement with the Seattle Education Association. *Cost increase \$4.3 million.*
- An increase in pension contributions of 0.7 to 1.1% per person (based on retirement categories) approved by the state legislature. *Cost increase \$2.8 million.*
- New bus service contracts for student transportation. *Cost increase \$2.3 million*
- A \$294 per person annual increase in medical premium coverage approved by the state legislature. *Cost increase \$1.4 million.*
- Cost increases related to a new negotiated agreement with the District's Principal Association bargaining unit, *\$1.2 million.*

A view of Seattle's budget by expenditure objects will help explain how small increases can have such large costs. Expenditure objects identify the type of items purchased or nature of the services obtained. These categories are determined by state accounting rules.

Budget by Major Object



FY07-08 Budget by Object (in millions)	
Certificated Salaries	252.5
Classified Salaries	89.1
Benefits	95.2
Supplies	23.4
Contractual Services	57.4
Travel	0.5
Capital Outlay	0.9
Total Budget	519.0

By far the largest expenditure, or 84.1% of total budget, is for employee salaries and benefits. Certificated Salaries is compensation for our largest employee grouping. These are employees with teaching certificates, such as principals, teachers, librarians, counselors, nurses and curriculum specialists. Substitutes and extra pay such as stipends, extra time, and Time and Responsibility Incentive (TRI) payments are also included in this category. Classified Salaries is compensation for employees such as supervisory, professional, technical, secretarial, clerical, custodial, maintenance, food workers and others who do not have teaching certificates. Employee Benefits are the costs for benefits such as FICA, retirement, unemployment, industrial, and medical benefit insurance.

Supplies and Instructional Resources comprise 4.5% of the budget. These expenditures are for instructional materials such as textbooks, library books, workbooks, computer software and other computer related materials used in instruction, kits and packets used in place of textbooks, and audio and videotapes. Office, custodial, maintenance, duplication, paper, supplies, and minor office equipment are included.

Contractual Services total 11.1%. This includes contracts for pupil transportation, utilities costs, and other payments for services rendered to the District.

Travel costs are only .1% of the budget. These are expenditures for district- related travel including contractual services in connection with transporting staff from place to place, lodging and meals, and mileage allowances for use of privately owned vehicles.

Capital Outlay at .2% of the budget is comprised of all expenditures for capitalized equipment and improvements to facilities and grounds, which are considered minor repairs by state accounting rules and are not eligible for inclusion in the Capital Fund. Other eligible expenses are the purchase of instructional equipment, computers, furniture, vehicles, lunchroom and kitchen equipment, and communications equipment.

In addition to the roughly \$22.7 million of cost increases generated by inflation, the remaining budget increase relates to \$3.8 million for one-time or new activities as well as an increase in budget capacity of \$2.5 million to allow for greater school and self-help carry-forward from FY07 to FY08. Major activities related to the \$3.8 million increase are discussed in further detail in the Expenditures by District Activity section.

Staffing Changes

Staffing increases between the Adopted FY06-07 and Recommended FY07-08 General Fund Budget total 20.4 FTE. Of this increase, 44.4 FTE are related to grant activities and a reduction of 24.0 FTE is related to non-grant funds.

A Comparison of Staff, 2006-07 and 2007-08

	2006-2007 Adopted			2007-2008 Recommended			Change		
	Grant	Non-Grant	Total	Grant	Non-Grant	Total	Grant	Non-Grant	Total
Teaching	475.8	2,765.8	3,241.6	491.0	2,750.0	3,241.0	15.2	-15.8	-0.5
Teaching Support	226.3	520.4	746.7	251.4	524.2	775.6	25.0	3.8	28.9
Principal's Office	10.8	346.1	356.8	15.4	333.6	349.0	4.6	-12.5	-7.9
Core Administration	2.5	127.8	130.3	2.0	125.1	127.1	-0.5	-2.7	-3.2
Other Support	0.0	596.4	596.4	0.0	599.6	599.6	0.0	3.2	3.2
Total	715.4	4,356.5	5,071.9	759.8	4,332.5	5,092.3	44.4	-24.0	20.4

* Numbers may not add due to rounding

Notable staff changes include:

1. An increase in funding from I-728 added 23.8 FTE School Based Professional Development Coaches to assist Title I schools in meeting academic standards.
2. Title I decreased 17.9 FTE, primarily in Teaching as more funds were directed toward activities mandated by No Child Left Behind, and as staff cost increases impacted the number of positions funded. It is anticipated that schools will receive an additional Title I allocation, as the grant award amount is higher than initially projected.
3. School closures result in a decrease of 4.0 FTE Principals and 6.5 FTE Office Support staff, reflected under Principal's Office, as well as 6.3 FTE Custodians under Other Support.
4. Core Administration decreases 2.7 FTE, a net result of reorganizations in Human Resources, Payroll, the Office of Grant Services and the Budget Office.
5. The District's reserve for K-4 teachers had not been distributed for the FY08 school year when the budget was finalized for this Recommended Budget. These positions will be distributed in FY08. This is only a function of the timing of the positions. Since the reserve will distribute 28 FTE, teaching positions will actually increase by 27.5 FTE for FY08 instead of decreasing by .5 FTE.
6. Grant funded positions increase, in part because Headstart staff are being budgeted to accommodate two grant cycles within the 2007-08 fiscal year. Positions are budgeted to complete the prior year grant ending in October and the same positions budgeted under the new grant cycle start in November. This results in an increase of 5.3 FTE under Principal's Office and 42.8 FTE under Teaching.
7. Increases in Other Support include 4.0 FTE Building Laborers and 3.0 FTE Carpenters staffed to support the Capital Fund programs. The Capital Fund will reimburse the General Fund for the cost of these positions.

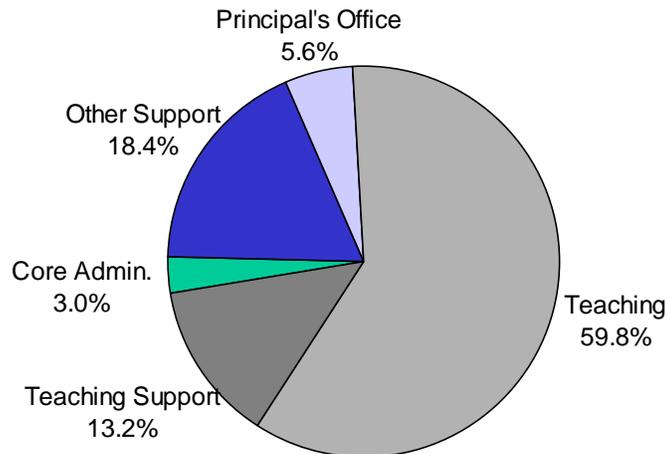
Expenditures by District Activities

For budget planning purposes, Seattle School District divides its operating expenditures into five distinct categories: Teaching, Principal's Office, Teaching Support, Core Administration, and Other Support activities.

At a macro level, expenditure changes can be characterized as follows:

- Teaching increases by \$13.7 million.
- Principal's Office increases by \$1.2 million.
- Teaching Support increases by \$6.9 million.
- Core Administration increases by \$1.1 million.
- Other Support activities increases by \$6.1 million

Budget by SPS Activity Group



Note: In addition to Teaching, and Principal's Office activities, the majority of Teaching Support staff and activities occur in school buildings.

Teaching and Principal's Office

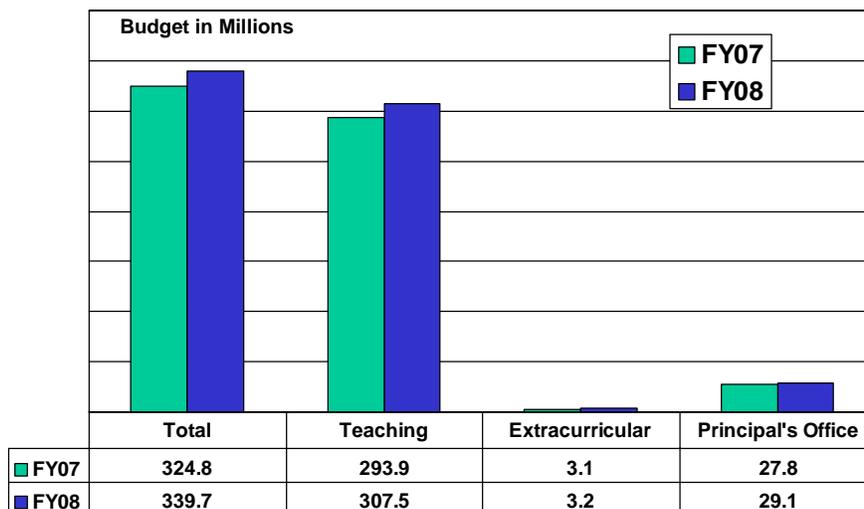
Teaching and Principal's Office expenditures include activities dealing directly with or aiding in the teaching of students or improving the quality of teaching, as well as the management and coordination of a school. Included are the costs of classroom teachers and aides, principals, secretarial and clerical staff at schools as well as supplies, teacher professional development, textbooks, and learning materials.

The budget for Teaching and Principal's Office activities for FY08 will be \$339.7 million dollars, an increase from the previous year of \$14.9 million. Of the total budget for these activities, 19.6% is grant funded and 80.4% is funded with non-grant resources.

Key changes to the Teaching and Principal's Office activities include:

- Cost of living, medical, and pension increases approved by the state legislature increase the cost of these activities by approximately \$10.5 million.
- A 3.0% contractual pay increase for certificated employees as provided in the District's negotiated agreement with the Seattle Education Association increases these costs by approximately \$3.5 million.
- Cost increases related to a new negotiated agreement with the District's PASS bargaining unit, \$1.2M.
- Funding for math textbook adoption \$1.9 million.
- Elimination of reserve for staff pay increases due to experience, savings (\$1M). It is anticipated this cost will be covered with salary savings caused by vacant positions throughout the year.
- Cost reduction of (\$938) thousand due to school closure savings related to four school principals and related office staff.
- Program placement efficiencies resulting in a savings of (\$995) thousand.

Teaching & Principal's Office



Teaching Support

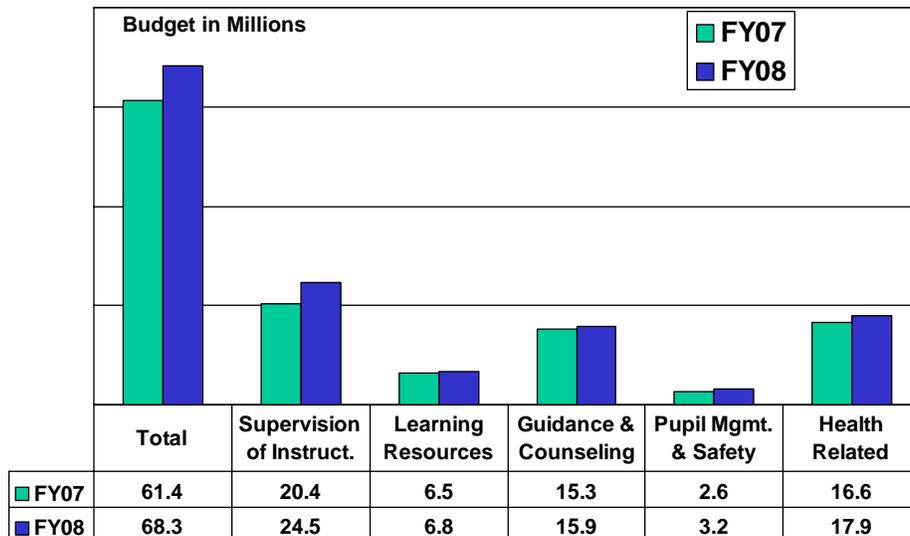
Teaching Support includes activities dealing directly with or aiding in the teaching of students or improving the quality of teaching. Costs of learning resource centers, teacher coaches, Star Mentors, student guidance, counseling, and health services are included here. Other activities include recording and maintaining student attendance records.

The budget for Teaching Support for FY08 is set at \$68.3 million, an increase of \$6.9 million over the previous fiscal year. Of the total budget for this activity, 34.3% is grant funded and 65.7% is funded with non-grant resources.

Key changes to the Teaching Support activities include:

- Cost of living, medical, and pension increases approved by the state legislature increase the cost of these activities by approximately \$2.3 million.
- An increase in funding from I-728 added 23.8 FTE School Based Professional Development Coaches to assist Elementary schools in meeting academic standards. Cost \$ 1.9 million.
- A 3.0% contractual pay increase for certificated employees as provided in the District’s negotiated agreement with the Seattle Education Association increases these costs by approximately \$800 thousand.
- Extend day classes/tutoring for academically at risk students (Project Excel). Cost \$430 thousand.
- Classroom libraries for grades three through five. Cost \$250 thousand.
- Addition of an International School Initiative. Cost \$132 thousand.

Teaching Support



Core Administration

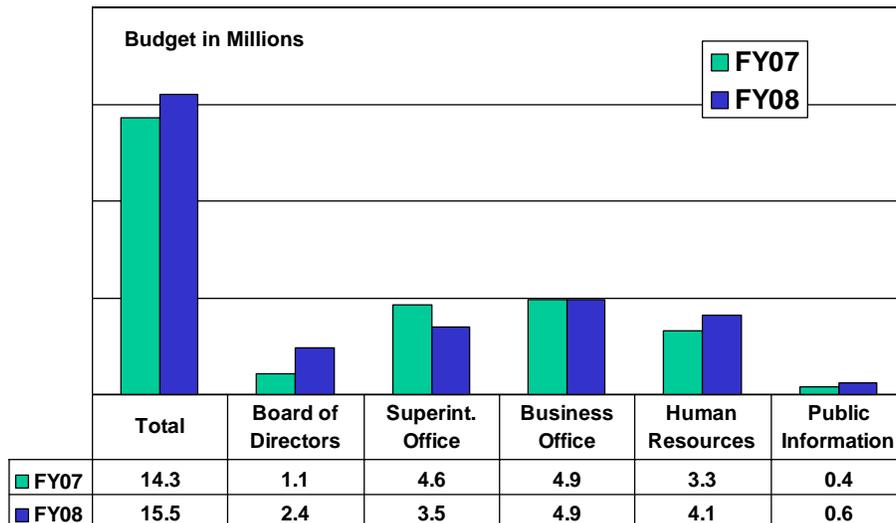
Core Administration consists of activities related to the district-wide administration and management of the District. Costs in this category include the Board of Directors, Superintendent, Financial and Accounting operations, Human Resources and Public Information.

The budget for Core Administration for FY08 is set at \$15.5 million, an increase of \$1.1 million over the previous fiscal year. Of the total budget for this activity, 1.1% is grant funded and 98.9% is funded with non-grant resources.

Key changes to the Core Administration activities include:

- Cost of living, medical, and pension increases approved by the state legislature increase the cost of these activities by approximately \$400 thousand.
- Reduction of the School Closure budget by \$370 thousand. Funds are still in place for mothballing buildings and to support the planned closure of the John Marshall building.
- Restructuring and staff changes in Human Resource services, \$218 thousand.
- Additional resources for the District's Communications Department, \$129 thousand.
- Addition of an internal auditor position in Financial services, \$92 thousand.
- One time funding to improve temperature control in the Technology department's server storage room, \$250 thousand.
- Many variances occur between District activities, as noted in the graph below, due to reorganizations and accounting adjustments such as moving the Grants office from the Superintendent's Activity into Business Services and then moving the Payroll function from Business Services into Human Resources.

Core Administration



Other Support

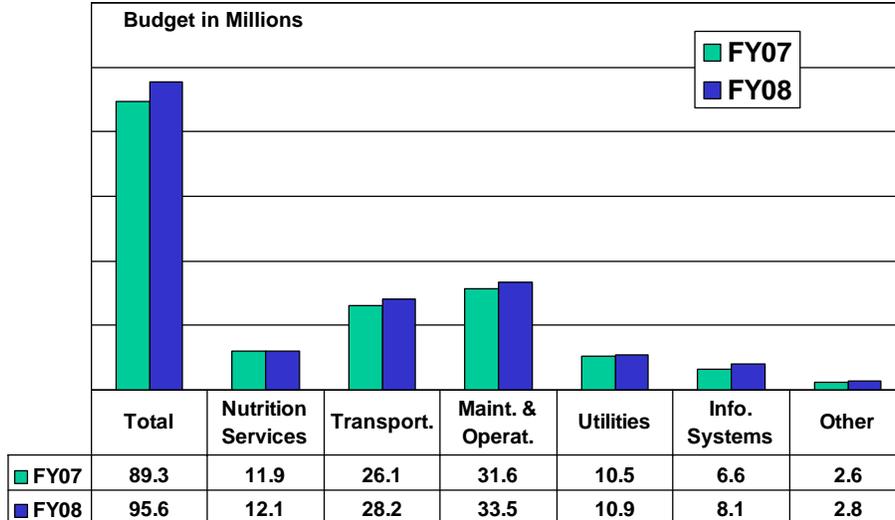
Other Support includes operating expenditures for food services, pupil transportation, the operation and maintenance of District facilities, building and student security, utilities, information services and warehouse functions.

The budget for Other Support for FY08 is set at \$95.6 million, an increase of \$6.1 million over the previous fiscal year. Of the total budget for this activity, 0.7% is grant funded and 99.3% is funded with non-grant resources.

Key changes to the Other Support activities include:

- Cost of living, medical, and pension increases approved by the state legislature increase the cost of these activities by approximately \$1.7 million.
- New bus service contracts for student transportation. Cost increase \$2.3 million.
- Increases of 4.0 FTE Building Laborers and 3.0 FTE Carpenters staffed to support the Capital Fund programs. The Capital Fund will reimburse the General Fund for the cost of these positions. Cost \$534 thousand.
- An assumption of utility cost increases of \$300 thousand.
- Increase in custodial supplies due to inflation costs of \$100 thousand.

Other Support



2007-08 Recommended Budget Debt Service Fund

The Debt Service Fund has been established to account for the payment of principal, interest and other expenditures related to the redemption of outstanding bonds.

The Recommended Budget for the Debt Service Fund is as follows:

	FY06-07 Adopted	FY07-08 Recommended	\$ Change
Beginning Fund Balance	\$ 17,629,215	\$ 18,980,557	\$ 1,351,342
Total Revenues	745,000	44,545,638	43,800,638
Total Expenditures	2,948,006	51,138,713	48,190,707
Transfers	3,265,006	1,865,919	(1,399,087)
Ending Fund Balance	\$ 18,691,215	\$ 14,253,401	\$ (4,437,814)

HIGHLIGHTS OF CHANGES

In February 2007, Seattle voters approved a six-year \$490.0 million BEX III capital bond levy to provide for renovation and additions to schools and athletic fields and to fund new technology systems. In the summer of 2007, the District will issue \$424.6 million of bonds to begin work on these projects. The principal and interest payments for the bonds will be made with the voter-approved tax levies and are reflected in the table above.

Revenues total \$44.5 million, increasing \$43.8 million for 2007-08. This increase is almost entirely due to levy collections, as the District begins to collect BEX III tax revenues in January 2008. The levy collections will continue through December 2013 with an annual assessment amount of approximately \$81.67 million.

Expenditures are budgeted at \$51.3 million, an increase of \$48.2 million. The increase is primarily due to the first installment of BEX III bond payments, anticipated at \$40.6 million and a scheduled balloon payment for the District's Energy Retro Fit loan of \$8 million. The balance is due to a slight increase in payments for previously issued bonds.

The transfer from Capital Project Fund decreases \$1.4 million, as the Energy Retro Fit and Qualified Zone Academy Bonds are now fully funded in the Debt Service Fund. The transfer funding the 2001 Series A bonds continues for 2007-08.

The Debt Service revenue and expenditure budget includes \$750,000 in capacity, so that if actual revenues exceed the projections, the District can spend the additional amount without filing a new budget.

2007-08 Recommended Budget Associated Student Body Fund

The Associated Student Body (ASB) Fund accounts for funds raised by students to support extra-curricular activities. Each school student body organization prepares and submits a budget for the school year.

The Recommended Budget for the Associated Student Body Fund is as follows:

	FY06-07 Adopted	FY07-08 Recommended	\$ Change
Beginning Fund Balance	\$ 3,211,545	\$ 2,653,634	\$ (557,911)
Total Revenues	4,681,712	5,171,220	489,508
Total Expenditures	5,239,623	5,428,966	189,343
Ending Fund Balance	\$ 2,653,634	\$ 2,395,888	\$ (257,746)

HIGHLIGHTS OF CHANGES

The ASB Fund budget is established at \$5,428,966 for FY2008. This amount is based on fund raising estimates provided by individual schools of \$4,671,220 and anticipated use of \$257,746 in the schools' ASB reserves. It also includes a District estimated budget capacity of \$500,000 to allow schools to collect and spend funds in excess of their projections without causing the District to file for a budget extension.

2007-08 Recommended Budget Transportation Vehicle Fund

The Transportation Vehicle Fund is used for the purchase of approved student transportation equipment and major repairs on student transportation vehicles.

The Recommended Budget for the Transportation Vehicle Funds is as follows:

	FY06-07 Adopted	FY07-08 Recommended	\$ Change
Beginning Fund Balance	\$ 12,967	\$ 14,400	\$ 1,433
Total Revenues	5,033	720	(4,313)
Total Expenditure	18,000	15,120	(2,880)
Ending Fund Balance	\$ -	\$ -	\$ -

HIGHLIGHTS OF CHANGES

The Transportation Vehicle Fund budget does not change significantly from last year. Because the District out-sources its transportation services, the cost of student transportation is reflected in the General Fund. The only funds accounted for here is a residual balance that generates a small amount of investment earnings. The \$15,120 budget will be used to address any major repairs of older District owned school buses needed in FY 2008.

