

MINUTES

School District 4J Budget Committee
Education Center—200 North Monroe Street—Eugene, Oregon

January 11, 2010
7 p.m.

PRESENT: Jennifer Geller, Chair; Shirley Clark, Beth Gerot, Tim Gleason, Pete Gribskov, Alicia Hays, Wendy Laing, Ann Marie Levis, Craig Smith, Debra Smith, Jim Torrey, Mary Walston, members; George Russell, Superintendent of Schools; Carl Hermanns, Barb Bellamy, Susan Fahey, Caroline Passerotti, Celia Feres-Johnson, Christine Nesbit, Larry Sullivan, Les Moore, Laurie Moses, Jon Lauch, Sara Cramer, John Ewing, Eliza Drummond, School District 4J staff.

ABSENT: Betsy Boyd, Carla Gary, Vice Chair.

I. Roll Call

Ms. Geller called the roll. She noted that Ms. Boyd and Ms. Gary were excused.

II. Items Raised by the Audience

There were no members of the audience who wished to speak at this time.

III. Items for Information and Discussion

A. Reviewing Enrollment Projections

Assistant Superintendent Carl Hermanns introduced Eliza Drummond who developed the district enrollment projections.

Ms. Drummond reviewed enrollment projections with a PowerPoint presentation entitled *Enrollment Projections 2010-2011*. Committee members were provided with a hard copy of all of the slides that were shown. She stated that they were projecting a decrease in enrollment at the elementary level, a slight increase at the middle school level, and a decrease at the high school level. She related that the district's enrollment was still declining and was projected to decline by 271.5 students in the coming school year.

Ms. Drummond highlighted the five-year projections. She said the good news was that starting in 2012/2013 the Kindergarten through 5th grade numbers started to increase. She anticipated that overall enrollment would no longer continue to decline and would likely increase.

Mr. Hermanns stated that overall the district was facing declining enrollment. At the same time it was experiencing a trend of having higher percentages of special needs kids. He noted that meeting those students' needs had budget implications. He remained hopeful that the projections would prove to be accurate and enrollment would begin to trend upward in 2012.

B. Review 2009-10 Financial Summary

Caroline Passerotti, Financial Analysis and Budget Manager, directed the committee members to look at the attachment entitled *General Fund 2009-10 Financial Summary, January 2010*. She provided a brief overview of the summary, with PowerPoint slides. She stated that the biggest change was that the State School Fund had been allocated more money than had been anticipated and the school district had received more money than had been projected as a result. She explained that the \$6.4 million change from the state included all of the formula revenues, \$4.6 million in federal American Recovery and Reinvestment Act (ARRA) funds, money from federal forest fees – scheduled to be phased out, and the Common School Fund and County School Fund distributions. She said property tax collections had continued to come in at the same rate as in previous years. She stated that the district was benefiting from a payment from Hynix Semiconductor, Inc. of approximately \$2.5 million, and the budget had been adjusted to reflect the one-time payment. The district was anticipating interest earnings to be \$500,000 below what had originally been in the budget. She reported that salaries were projected to be \$1.2 million in excess of budget and benefits were under budget by approximately \$1 million. Benefits savings were attributed to the one-time use of beginning fund balances in the PERS Debt Service Fund. She said services and supplies were also \$1 million below budget, and that excess budget authority would likely be transferred to offset the higher salary levels and schools converted portions of discretionary budgets to staffing. She stated that the district anticipated an ending fund balance of a little over \$10 million, which was \$5 million higher than had originally been budgeted in the adopted budget. She said spending was anticipated to be less in the current year because of cuts made in that year.

C. Review Proposed Public Input Process

Chief of Staff, Barb Bellamy, referred to the attachment entitled *2010-11 Budget Process – Public Input Process* dated *January 8, 2010*. She said it featured the two components that had been previously discussed, the utilization of a web survey and stakeholder forums. She noted the staff recommendation was not new to the committee. She stated that if the committee wanted to give further guidance on the survey, pending the results of the vote on Ballot Measures 66 and 67, they could do so in February. She said if the Ballot Measures passed, they would not need to get input on shortening the school year or some of the more drastic measures. They wanted to time the input process so that it aligned with the budget process before them.

D. Respond to Budget Committee Member Information Requests

Susan Fahey, Chief Financial Officer, stated that they did not have responses to all of the questions that the committee had asked and would provide the remainder at the February meeting.

Ms. Passerotti reviewed the State School Funding Formula, derived from the amount allocated per student multiplied by the number of students with the addition of the transportation grant and the subtraction of local revenues. She noted, regarding teacher experience, that the district was slightly better than the state average; in past years, district teacher experience was significantly higher than the state average.

Ms. Passerotti highlighted the weighting formulas for the students. She noted that the Individual Education Plan (IEP) students were given an additional 1.0 weight in the funding formula but this was capped at 11 percent of the Average Daily Membership (ADM), which left approximately one-third of the qualifying students without second “weight” funding.

In response to a question from Ms. Clark, Ms. Passerotti clarified that students counted multiple times in the categories under which they qualified for funding. She said they were all counted at least once in the ADM (resident) number.

Ms. Passerotti stated that in any given year, the district was funded at the higher ADM (weighted) of the current year or the prior year. She continued her review, highlighting the transportation grant and local revenues. She reiterated that the federal forest fees were not projected to be renewed after 2011-12. She explained that the Common School Fund payment of \$1.2 million had come from investment earnings from income on federal lands managed by the State Land Board.

In response to a question from Mr. Smith, Ms. Passerotti explained that the Hynix payment was part of property tax revenue and would not result in greater revenue to the district.

Ms. Passerotti reviewed the key allocations of General Fund resources to schools.

Ms. Levis asked if allocating staffing funds so that 90 percent was based on enrollment and 10 percent was based on need arose from a standard formula. Ms. Passerotti said the standard practice was the ratio, so that the number of licensed staffing at a school was based on enrollment numbers.

Superintendent Russell clarified that the district could decide to shift the percentage so that 100 percent was based on enrollment, or some other ratio.

Ms. Passerotti stressed that the point being made was that staffing was allocated to schools based on student need in addition to enrollment.

Ms. Fahey said the question had been asked as to how much it would cost for the district to get all schools to Phase I of the Technology Integration Phase Project (TIP). She explained that a couple of years previously, funding had been given to support technology integration in the class room. This was the second year of the project. She outlined the requirements of Phases I through III. She noted that the committee had been provided with a handout entitled *Eugene School District 4J School List Instructional Technology Phases K-12*, that delineated which schools were in which phases of the project. The initial cost to bring all schools that were in pre-Phase I to Phase I was estimated to be approximately \$6 million for equipment and the requirement for eight hours per week of site-based support. She said this excluded professional development and infrastructure costs, such as getting more wiring to the schools.

Ms. Gerot asked what it would take to bring a school from pre-Phase I to Phase III in terms of professional development. Ms. Fahey responded that she was not able to come up with a number for it at this time. Les Moore, Director of Computing and Information Services, added that the selection of the people to participate in TIP was directed to those who did not have a lot of this type of technical training.

Ms. Fahey said the last request for information had been for building age and capacity, provided to the committee on a blue sheet with the heading *Eugene School District 4J Building Area*.

Ms. Clark asked, regarding the TIP, whether schools self-selected to participate in pre-Phase I. Ms. Fahey replied that she did not believe any schools wanted to be in pre-Phase I. She said because schools were site-based, they chose how to spend discretionary money and some opted to put more technology in buildings and some did not.

In response to a follow-up question from Ms. Clark, Ms. Fahey said it continued to be a site-based decision. She stated that as funds became tighter, it became harder for schools to move out of the current Phase they were in. She related that the schools were moving ahead, albeit slowly.

IV. Items for Action at this Meeting

A. Review Draft of District Financial Forecast and Provide the Direction for Balancing the 2010-11 Budget

Ms. Fahey stated that the district continued to face economic instability in its General Fund. She presented three different scenarios based on different revenue assumptions. She said the base forecast used the adopted legislative budget of \$6 billion, the second scenario removed the proportional funding if Ballot Measures 66 and 67 failed, and the third scenario removed the \$200 million in state reserves in addition to that. She underscored that the higher level of revenues would still not be sufficient to cover increases in district costs.

Ms. Fahey reviewed the revenue and expenditure assumptions. She said they assumed that once the stimulus funds expired, the state would be able to replace them with state funds and maintain the state school fund payments.

Ms. Smith understood that there were a certain number of students that did not receive second weight funding based on needing an IEP. She asked if the revenue provided for the students who did receive the second weight funding was adequate. Ms. Fahey responded that the district spent more than the state allocated it for kids with special needs.

Ms. Fahey discussed the local option levy revenues. She reminded the committee that there were several state limitations and because of the factors they used the district was projected to be substantially below the limitations. She showed a graph that delineated the leveling of the revenues and the tax rates and what was actually collected from taxpayers. She said they anticipated the next few years to look like 2002 and 2003 did during that recession.

In response to a question from Mr. Gleason, Ms. Fahey said the student/teacher ratio varied from 23 to 26 kids per teacher. She explained that a decline of 100 students would save approximately \$300,000 in teacher costs if those teachers were cut. She stated that this left a deficit that the district would have to cover to meet the \$600,000 revenue shortfall that the loss of enrollment would create.

Ms. Fahey presented an overview of the district expenditures. She noted that one day had been added to the forecast for licensed employees, and three days for most classified workers as part of contractual agreements. She reviewed the projected increases to the Public Employee Retirement System (PERS) rates.

Ms. Laing asked if the union negotiations had been conducted on a biennium basis. Ms. Fahey responded that the Eugene Education Association (EEA) and the Oregon School Employees Association (OSEA) had different contracts – EEA was set to expire in June, 2010, and OSEA was set to expire in September, 2010. She related that they had talks with the groups during 2009 because of the dire circumstances the district was facing, noting they had willingly come to the table to discuss concessions.

Ms. Laing ascertained that this had been a one-year agreement with the groups and the unpaid time would be restored.

Mr. Smith asked what the total number of Full Time Equivalent (FTE) for licensed staff was. Ms. Fahey replied that it was approximately 850 currently.

Ms. Fahey explained that the Special Education Contingency had been taken out of the previous budget because of the federal stimulus funds and now would need to be restored.

In response to a question from Ms. Gerot, Ms. Fahey stated that there were three additional bus routes –

the first was for the super-boundary for Howard and River Road Elementary Schools, the second for increased mid-day special education routes, and the third was a route for homeless students. She noted that the number of homeless students had increased due to the economy.

Ms. Levis asked what the “upside and downside” of drawing money from the PERS reserve to meet the demand of increasing PERS rates was. Ms. Fahey responded that this would mean that in the future money would have to come out of the General Fund. She explained that the reserve had been started the first time the district had seen a decrease in PERS rates, a couple of biennia earlier. She said they had anticipated a higher PERS rate increase than had happened in the following biennium, which had left approximately \$2.5 million in the reserve. The current PERS rate increase was so substantial that the fund would only partially offset it.

Ms. Fahey discussed the forecast results, noting that every year there was an operating deficit in all three scenarios. She stated that in the base forecast the district anticipated a \$2.3 million deficit in the next year and then in 2011-12 the district would see a huge increase in the deficit due to the PERS rate increase. The increase in the deficit in 2013-14 was also due to an anticipated PERS rate increase.

Ms. Fahey reported that what they had heard from the Legislative Revenue Office was if Ballot Measures 66 and 67 failed, the state economy would not meet the conditions required to release the \$200 million in reserves. She explained that the third scenario excluded the district’s share of the reserves in addition to the revenue reduction the district would have to take if the measures failed. She added that the Department of Health and Human Services would not meet requirements for federal funding should the tax measures fail and this meant a \$1.2 billion deficit in the State’s budget.

Superintendent Russell related that states across the country were finding that they would not be able to meet the obligations for the remainder of the current year and the next year and were projecting much lower revenue. He asked if there was any chance that the state’s budget for 2010-11 would call for additional reductions for the second year of the biennium. Ms. Fahey responded that there was a chance. She said the state had held its tax revenues at a fairly constant level in the December forecast. She noted that most state forecasts around the country were coming in lower because of revenue projections. She did not know, however, what assumptions they used to base their forecasts on.

Ms. Fahey reviewed the forecast variables, with PowerPoint slides. She said they had discussed them all with the exception of the No Child Left Behind act. She stated that there were federal requirements that all students must meet certain benchmarks. She thought they would need additional resources to help kids do that in the future.

Ms. Levis asked Ms. Fahey to elaborate on the slide regarding *Forecast Variable – Special Education Costs*. Ms. Fahey explained that the state funds for kids who were on IEPs were given a double weight in the school funding formula, up to a cap of 11 percent of ADMr. She said the School District 4J had an increasing number of kids who were above that cap. She related that they were also experiencing an increase in kids entering the district’s system with severe disabilities. She noted that there were several students that cost \$25,000 to \$30,000 to educate. She stated that there was additional funding to help educate the higher cost students, but it was not enough. She said when Congress reauthorized the Individuals with Disabilities Education Act (IDEA) of 2004, they made a commitment that they would cover up to 40 percent of special education costs, but they were not coming close to that in actuality.

Regarding the outlook for future years, Ms. Fahey underscored that they were hoping for the best, but preparing for the worst, as they awaited the results of the vote on January 26. She referred to page 16 of *Lane County School District 4J (Eugene Public Schools) Five-Year Financial Forecast*, noting that the Eugene district spent a higher percentage on teaching and student resources than the state average and the

two districts it had been compared to – based on 2007-08 data. She said the big difference had been in buses and buildings, mainly because the state had provided a waiver for the use of Lane Transit District bus passes for high school students, and this reduced the district’s transportation costs.

Superintendent Russell said usually after receiving a report on the forecast, the committee would give him direction on preparing a budget to bring forward to them. He proposed that they direct him to bring forward a balanced budget for 2010-11, to be guided by the district’s mission, core values, School Board goals, and key results. He noted that this was similar to what had been past practice. He said the budget should retain sufficient reserves to meet cash flow needs, to maintain the district’s bond rating, to allow the district to achieve Board targets for contingency and reserve funds, and to set aside funding to anticipate future PERS rate increases, and as well as take into consideration stakeholder feedback using the process described by Ms. Bellamy. He added that they would also seek to position the district to implement sustainable budgeting practices, per a Board goal added in the current year. He said the goal sought to address a shortfall by making service or cost reductions using the following criteria:

- Focusing on the instructional core;
- Keeping the Board goals and key results at the forefront of decisions;
- Retaining sufficient funds to manage the required human resource, financial, information technology leadership, and facility maintenance activities of the district;
- Minimizing layoffs to the extent possible;
- Being mindful of the long-term – avoiding short-term solutions that could have harmful long-term consequences.

He stated that the reality was that there was a lot of competition for limited resources. He said the criteria would set the stage for the kinds of decisions that would have to be made. He underscored that there were still “a lot of ‘ifs’ out there.” Much of what they would base the budget on depended on the final situation the district found itself in. He thought he would likely have to present budget scenarios. He remarked that one question he continued to wrestle with was what stakeholder input should consist of in the case that the measures passed and it appeared the district had sufficient reserves. He said, based on the projection, they were looking at a potential shortfall of approximately \$2.5 million if everything did “fall in place.” He was not certain they would need a lot of stakeholder input if faced with a shortfall that could be managed internally.

Ms. Levis, seconded by Ms. Gerot, moved to direct Superintendent George Russell to prepare the draft budget recommendation for the 2010-2011 school year. The motion passed unanimously, 12:0.

B. Set Date for Next Budget Committee Meeting

Ms. Walston, seconded by Mr. Gribskov, moved to set the next meeting of the School District 4J Budget Committee for February 8, 2010. The motion passed unanimously, 12:0.

V. Items Raised by Members of the Budget Committee

There were no other items raised by members.

VI. Adjournment

Ms. Geller adjourned the meeting at 8:20 p.m.

(Recorded by Ruth Atcherson)