

MINUTES

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

November 22, 2010
7 p.m.

PRESENT: Jennifer Geller, Chair; Betsy Boyd, Carla Gary, Tim Gleason, Pete Gribskov, Wendy Laing, Debra Smith, Craig Smith, Beth Gerot, Alicia Hays, Jim Torrey, Mary Walston, members; George Russell, Superintendent; Laurie Moses, Carl Hermanns, Barbara Bellamy, Celia Feres-Johnson, Christine Nesbit, Susan Fahey, Jon Lauch, Sara Cramer, Larry Sullivan, Caroline Passerotti, John Ewing, staff.

ABSENT: Shirley Clark, Anne Marie Levis, members.

Ms. Geller convened the meeting of the School District 4J Budget Committee.

1. ROLL CALL

Ms. Geller called roll.

II. ITEMS RAISED BY THE AUDIENCE

Blaine Itlebechuk, Meadowlark Site Council representative, spoke about Meadowlark's opposition to the proposal to close Meadowlark, and suggested there be a consideration to convert the immersion schools to charter schools. Meadowlark's Site Council was also advocating for a K-8 configuration rather than K-3/4-8 model, he said. The K-8 model was being used across the country now in many districts, he said, and he felt having all K-8 models in 4J would eliminate the need to close schools. He thought there were activities that could be privatized in the Facilities Division.

Jeannine Ewing spoke as a representative from the Buena Vista Site Council. She read a prepared letter, which it was stated that the District's best practices guidelines maintained that elementary schools with enrollment levels below 350 could not equitably serve all students, and particularly Special Education students. Once again, it seemed, alternative schools were being scapegoats. Their hope was that alternative and immersion schools would not be closed, as they were doing a great job in closing the achievement gap.

III. ITEMS FOR INFORMATION AND DISCUSSION

A. National and Oregon Economic Update

Susan Fahey introduced Tim Duy, Director of the Oregon Economic Forum and Adjunct Assistant Professor at the University of Oregon. She noted that Mr. Duy was the author of the University of

Oregon *Index of Economic Indicators* and that he had worked as an economist for the U.S. Department of the Treasury.

Mr. Duy said he wanted to talk about how the economy had gotten to its present condition and what might be expected with economic growth over the next two years. The national and state economic conditions were very much connected, he said, which was not always true. From an economist's viewpoint the recession was over, although he was not seeing a V-shaped recovery with a sharp up-turn following the downturn as had happened in past recoveries. Savings rates were now up, he said, with consumers being more reluctant to spend as much as they had earlier.

Mr. Duy did not believe that mortgage lending would revert any time soon to pre-recession levels; in fact, he felt that the housing market had been fundamentally altered. Previously a house had been seen more as a service item for the consumer, providing a roof over one's head. Over the past 20 years this situation had changed to where a house was seen more as an investment than a service, which had pushed prices up to a less affordable point. This situation was atypical for recession recovery, he said.

The trade deficit had been expanding, Mr. Duy continued, rather than contracting as he would have expected. The upshot of this situation was that payroll growth or net job growth had not been rising rapidly enough to offset the impacts of the recession. To keep the unemployment rate stable and not rising, approximately 125,000–150,000 new jobs were needed per month. There were still about five unemployed for every job opening, which was down some from earlier in the year, but still extremely high. Retail sales were also shown to be growing, but not as quickly as needed.

Mr. Duy noted that the gross domestic product would possibly take 3-4 years to catch up. Residential building permits were up just a little from the deepest level, with the weak housing market.

This decade for the US economy was unprecedented, Mr. Duy remarked, with negative job growth for the whole decade. Oregon tended to grow faster than the U.S. as a whole in past decades coming up to the year 2000. Since 2000 the growth trend was well below that of the previous decade. Suffering had continued from the shortfall of 2000, and had intensified over the last few years, he said. In order to close the gap quickly, the growth rate needed to double. He did not expect to see real improvement until the next biennium.

The forecast for the next two years, Mr. Duy commented, was for growth to continue to recover, though the levels of growth would most likely be low. It was difficult to see how the growth would be sufficient to change the baseline outlook that the state was showing at this time, he said.

Responding to a question by Mr. Smith about the possibility of recovering to earlier payroll rates by 2015, Mr. Duy noted that during the early part of the recession, spending trends had continued to increase while economic growth declined, so that recovery was more difficult.

Ms. Gerot remarked that she had heard from the Governor's office that another \$700 million shortfall was projected for the next biennium and then an additional \$1 billion shortfall the biennium after that. Mr. Duy responded that in the recent past projections were not met, so that now it was safer to forecast on the lower side. He felt that the basic outlook was not that pessimistic, and that it would take an internal or external shock to push forward such a dire forecast.

B. 2010-11 Financial Update

Ms. Passerotti said she would like to review the smaller picture of the district's financial status in the current year. She noted that "revenue insecurity" was an important reality, as both the state and local revenues had been heavily impacted by the recession. State funding provided about 88% of the district's General Fund revenue, she explained. If local revenues were up, the state would pay less, and vice versa. Currently both resources were stressed, she said. Personal income taxes provided about 84% of the state General Fund resources, and these were impacted by high unemployment, passage of Measure 66 and turmoil in the financial market. As well, there was a big decline in capital gains income and corporate profits were also down, she said.

Ms. Passerotti clarified that in the current biennium state revenues were insufficient to support services, and it had taken almost \$200 million in federal funds through ARRA and the Education Jobs Bill to bridge the gap. These were one-time funds, she noted, and it was hoped that state revenues would somehow be able to cover this gap moving forward. Local property taxes were down. The assessed property value growth rate was only 1% this past year, down from an average growth of 4.25% in the past five years. The Measure 5 ceiling had dropped, and the closure of the Hynix plant had contributed, she commented. Tax collections were down, she continued, and Federal Forest Fees were being phased out. Other factors contributing to the revenue insecurity included a lower local option levy income, heightened compression losses (because of lowered real market values and higher assessed values) and low interest earnings.

On the expenditure side, a tighter budget existed, Ms. Passerotti continued. The Beginning Fund Balance of \$1.1 million was below budget, and total revenues were \$700,000 over budget due mostly to adjusted state funding and a boost from the Educational Jobs Bill. Total expenditures were expected to be about \$1 million above budget projections, she said. An Ending Fund Balance of \$5.2 million was expected, which would be \$1.4 million below budget.

As the year progressed, Ms. Passerotti commented, there would be a better understanding of how the budget would play out in the current year, and an update would be forthcoming in January.

C. Oregon December Economic Forecast Update

Susan Fahey commented that last Friday the state had released its budget forecast, and that the current biennium forecast was up about \$70 million from the last forecast. The circumstances of this increase, however, would have a negative financial impact in the following biennium. Effective January, 2011, the personal income tax withholding tables were set to be changed and more Oregon state taxes would be withheld from paychecks, Ms. Fahey said. This would mean that when taxes were filed in 2011, there would be less taxes due in 2012 and more refunds, which would reduce the tax revenue in that biennium. For the current biennium this meant there would be a \$70 million increase rather than a \$30 million shortfall.

Ms. Fahey further reported that state reserve levels were projected to be at about \$175 million at the end of the current biennium, which would provide some cushion if later projections came in lower, though not a lot. There were some reasons for guarded optimism, she said, as exports from Oregon were up 25% this year, almost to pre-recession levels. Some positive job growth in October was encouraging as well. The March forecast was scheduled to be released on February 8, 2011, she said.

Ms. Fahey showed data regarding the revenue insecurity that had been experienced over the past few years, which detailed state funding estimates over time for the 2009-11 biennium. Estimates had increased in 2007-08 and then dropped in 2008-09, increased again due to ARRA funding, then dropped in 2009-10 and even lower now in 2010-11.

Moving on to the next biennium, the state forecast was down by about \$270 million, Ms. Fahey continued, while current projected General Fund resource increase of \$1.4 billion. Projected personal income tax growth was about \$1.6 billion or 15.4%, which would be tough to attain unless employment picked up at a faster rate, she said.

To maintain current service levels, the state general fund shortfall for the next biennium would be \$3.5 billion. The current K-12 funding level of \$5.738 billion could decrease to about \$5.4 billion.

Ms. Fahey remarked that Governor Kulongoski would present his 2011-13 budget on December 1, while Governor Elect Kitzhaber would present his budget sometime after Thanksgiving and probably by December.

Wendy Laing asked how the \$5.4 billion shortfall number would translate to the 4J School District. Ms. Fahey said she believed the district's general fund shortfall would be in the \$25 million range.

D. Review of Fund Balances

Ms. Fahey noted that while Ms. Passerotti had shared projections for the General Fund ending fund balance for this year, she would provide the additional fund balances. For the Fleet and Equipment Funds, the current balance was \$5.5 million, which included \$1.2 million held in a separate fund for equipment and textbooks and \$2.3 million for bus leases. Textbooks and other non-consumable supplies or equipment valued over \$100 were paid out of this account, she clarified.

Capital Repairs Fund resources were currently about \$2 million and projected to be about \$680,000 at the end of the fiscal year. The Sale of Surplus Property Fund resources were close to \$10 million, with a projected ending fund balance of about \$6.5 million. Capital Funds should end at \$7.2 million, and would be needed for the 2011-12 year for things like repair/replacement of roofs and athletic field turf replacement. These numbers did not include any emergency repair contingency or potential school consolidation remodel costs, she said.

The District Retirement Fund was projected to end at \$4.6 million, of which \$2.5 million represented the PERS reserve needed to offset PERS rate increases in the following biennium. A balance of \$2.1 million in the Early Retirement Program was being reduced annually, and would drop about \$700,000 this year, Ms. Fahey explained.

The Insurance Reserve Fund and the General Risk Fund had about \$1.3 million at this point, and the Employee and Wellness Reserve Fund had \$7.9 million. The Wellness Reserve was being drawn down this year, she said.

Other restricted funds that could not be accessed included the Student Body Fund with \$3.8 million, Debt Service with \$11.6 million was used to pay off debt obligations and Nutrition Services Fund had \$70,000, which was a minimal balance to keep it in the positive.

Responding to a question by Mary Walston as to whether it was true that the General Fund reserve should be at \$23 million and was, in fact, only one-quarter to one-fifth of that figure, Ms. Fahey said yes, based on GFOA reserve recommendations. It was clarified that all reserves were below recommended levels.

Ms. Fahey responded to Mr. Smith, who asked about the comment regarding outsourcing of Facilities, saying that in the last legislative session a law had been passed in this line for which a fairly substantial cost benefit analysis was required to even consider contracting out, and if the analysis showed savings primarily from salary and benefits, there was a legal requirement not to contract out. Mr. Smith asked if this also applied to Shared Services, and Ms. Fahey said this was still being investigated and was not yet clear.

Responding to a question from Mr. Torrey about whether the research around shared services could also include the possibility of sharing services with governmental bodies such as Lane County, City of Eugene, or State of Oregon, Ms. Fahey replied yes, this could be done.

Ms. Geller asked if a bond would need to be sought to replenish Capital Funds at some point. Mr. Lauch could not recall the exact date, but noted that for one piece of this, about \$3 million would be needed for roof repairs in the next three years, and then more roof work projected for about \$10 million in 2013-14. In answer to Ms. Geller's further question about whether some Fleet and Equipment funds were held by individual schools, Ms. Fahey clarified that all the remaining funds were held individually by schools and departments.

Ms. Hays remarked that in public hearings there had been questions about district reserves, and that it was important to understand that there were not big reserves to be tapped. Mr. Smith noted that if reserves were accessed, there should be a source for replenishment of those reserves, which was not the case currently.

Ms. Geller commented that the revenue stream was currently very volatile in Oregon and that there was not an adequate Rainy Day Fund. This consideration was important to remember when decisions were being made about spending reserve funds, she said. Mr. Torrey added that using the reserves would be a one-time expenditure and would not lead towards a sustainable budget. Mr. Smith called this tactic a "bridge to nowhere."

IV. ITEMS FOR ACTION AT THIS MEETING

A. Provide Feedback on Preliminary Sustainable Budget Recommendations

Superintendent Russell commented about "next steps" for the budget recommendations that there was currently a survey posted that was receiving feedback, and on December 1 the board would be having a work session where they would reflect on all the feedback received from the survey and the public forums to date. They would discuss and consider the preliminary recommendations and provide their own feedback. Based on all the information received, Superintendent Russell planned to present some revised recommendations on December 8. More opportunities for public discussion then would hopefully lead to final recommendations in January.

Superintendent Russell summarized the feedback that he had heard so far:

1. **Revenue Enhancement** – While some concern had been expressed about the possibility of increased taxation, much of the feedback in this category had been positive about looking at all possibilities for finding additional revenue. Some had even offered ideas about how this could happen, including selling or leasing property and/or working with the City of Eugene to find some additional tax money to support schools. Some felt that it was important to delay pursuing all other recommendations while additional revenues were sought, including state or local sales tax, or an income tax for higher income individuals in the community.

Another suggestion was to look to the University of Oregon to help find or contribute revenues, and to create a 4J Development Office to find better ways to get revenue. Some had volunteered to help in this effort.

2. **Fewer School and Work Days** – Suggestions ranged from cutting the school and work year to avoiding staff reductions and/or raising the student/teacher ratio, looking at furloughs rather than work year reductions during the crisis time, or considering raising class sizes. Recently there had been a lot of comments about considering four-day school weeks.
3. **Reduce Staffing, Services and Programs** – A number of comments advocated for cutting more in Central Services and Administration before additional cuts to or closing of schools. Concerns had been expressed about changing class sizes and quality of offerings for students, including electives at upper grades and specialist time at the elementary school level. Specific recommendations had been made on which programs and positions should be cut or eliminated.
4. **School Closure and Reconfiguration** – This had been the area of most comments and concerns. Most people expressed opposition to a grade 4-8 configuration, with biggest concern for social/emotional impacts for 4th graders sharing buildings with 8th graders. While some felt positive about a K-8 immersion program, others were concerned about losing choices at the middle school level if the K-8 system was instituted.

There was considerable opposition to closing of any schools, although there seemed to be general acknowledgement that this would be needed. Some felt that immersion schools and other alternative schools should be closed before closing any neighborhood schools, and others felt that high-performing schools should be closed before lesser-performing schools. Alternative reconfigurations put forth included K-5, 6-8, or K-4, 5-8 and K-7, 8-12. Concern was expressed for equity in not having the same configuration across the whole district, and also for the possibility that reconfigurations could drive some families to consider private schools, home schooling or charter schools.

There was concern as well about the time and disruption that would occur in reconfiguration attempts, staff cuts and school closures all happening at the same time, and about the costs incurred in making the changes. Some suggested closing some schools for next year and waiting to consider reconfiguration for later, and that the new superintendent should be allowed to make those decisions. In considering which schools should be closed, suggestions were to look at geographic and neighborhood considerations, and also to consider the physical condition of the schools being considered for closure. Others wanted to know how any of these changes would affect the district's long-term plans.

5. **Shared Services/ Contracting Out** – There were few comments in these areas, though some suggested looking at contracting out bus services. Others suggested consolidating with Bethel and/or Springfield School Districts and creating one district, or merging some administrative operations, such as Business, Payroll, Human Resources, etc. Another suggestion was to have Lane Education Service District pick up some of the services currently provided by the school district.
6. **Materials, Supplies and Services** - Suggestions included cutting as much of materials, supplies and services as possible before cutting teachers and staff.
7. **School Instruction and Redesign** – Many comments in this area were around reconfiguration, although some supported looking at different ways of providing instruction as ratios changed with less staff, particularly in terms of how to use technology better to deliver instruction at the secondary level.
8. **Non-instructional and Student Support Programs** – Concern was being heard about cutting athletic and extracurricular activities, and the impact on students in terms of keeping kids connected to schools. Some suggested having parent and/or community fundraising to supplement these budget items.
9. **Reserves and One-Time Funds** – There was increasing support for the idea of spending some of the district’s reserve funds to help balance the 2011-12 budget.
10. **Compensation and Benefits** – Suggestions in this area included freezing pay levels and consideration of early retirement incentives. Questions arose about how PERS costs were going to be handled. Other suggestions included shortened work days and salary cuts for administrators.

Superintendent Russell asked for comments from Budget Committee members.

Debra Smith offered three comments: 1) that the superintendent and board needed to “stay the course.” She loved his expression that “there was something to hate for everyone” in this discussion, and she did not feel that public comments came from those with a lesser vision of the whole puzzle of the district’s operation. 2) She felt it was important to “master the message.” She could see that staff attempts to communicate to the public were not being heard, that school closures were not about the \$1.2 million savings, but about being able to continue to offer quality education during a time of changing teacher/ student ratios. 3) As a parent and community member, Ms. Smith felt that “we’re allowing ourselves to be distracted from the problem.”

Pete Gribskov recommended that the Budget Committee members be included in the board work session to help in the decision-making process because of its being such an important decision.

Tim Gleason felt that the greatest challenge was converting the conversation about what to cut into one of what to build. The question of consolidation was a distraction, he said, because the money was all in personnel. Until this was addressed, the question of revenue enhancement could not be put before the voters.

Betsy Boyd appreciated the preliminary recommendations made by the superintendent as very thoughtful. About enrollment management, school closures and consolidation, she thought it was important to know

how these new configurations could be managed and evaluated. Earlier conversations about alternative school programs revolved around creating “islands of stability.” She saw the language immersion schools as different, where she felt that building K-8 immersion programs could create a better language outcome and a stronger curriculum. It was important to consider how, for instance, evaluation and management of a K-4 model would differ from a K-5 model. About reserves, Ms. Boyd felt that state reserves as well as district reserves were dangerously low, but that the greatest reserve was the quality of personnel, and some way had to be found to judiciously bridge to a time of a different budget environment, which could be either smaller or larger. She supported some expenditure of reserves that was prudent.

Carla Gary added that she had talked with some people who wanted to make sure that the decisions to be made would not further challenge those who were already struggling. With a growing disparity between the haves and have-nots, it was important to give consideration to those who struggle the most. She appreciated Superintendent Russell’s courage in making the recommendations, and felt that it was important to not only see the needs of today, but to look ten years out as well, to try and get a more long-term picture.

B. Set Date for Next Budget Committee Meeting

Ms. Geller questioned whether the Budget Committee would want an opportunity to offer input before the board voted on the revised recommendations, which would probably occur in mid-January.

Ms. Laing remarked that she would want her input considered, and she understood that might mean an extra meeting. Other Budget Committee members agreed.

Ms. Bellamy clarified about timelines that there were three meetings in December: the board’s work session on December 1, revised recommendations being received at the board meeting on December 8, and another board work session on December 15. The last public hearing would be January 5, 2011, she continued, and there would likely be another board work session to consider public input. Tuesday night, January 25, the board would make its final decision. She recommended scheduling a Budget Committee meeting on Tuesday, January 11. Responding to a consideration by Mr. Gribskov that committee members help in the decision-making process, Ms. Bellamy suggested that Budget Committee members join the board at the December 15 work session.

Debra Smith suggested that Budget Committee members also attend the December 8 meeting to hear the Superintendent’s revised recommendations.

Ms. Geller confirmed that there would be a joint work session on December 15 after revised recommendations had been issued.

VI. ADJOURNMENT

Ms. Geller adjourned the meeting at 9:18 p.m.

(Recorded by Judy Burton)