

EUGENE PUBLIC SCHOOLS  
School District No. 4J Lane County  
May 5, 2010

MEMORANDUM

To: Budget Committee Members

From: George Russell  
Superintendent

Re: May 10, 2010 Budget Committee Meeting

**I. Roll Call**

**II. Items Raised by the Audience**

Public testimony is welcome at budget committee meetings and time is set aside at each meeting to hear comments from the audience.

**III. Items for Information and Discussion**

*A. Review Update of the 2009-10 – 2014-15 General Fund Financial Forecast*

Since January we have updated our forecast and balanced the proposed 2010-11 budget to reflect changing conditions. A copy of the general fund forecast section is included in your packet. At the meeting, staff will provide the capital and statistical sections and review and discuss the updated forecast.

*B. Receive Information on Planning for a Sustainable Budget*

Given the shortfalls the district is forecasted to face, I have begun reviewing options on what a sustainable budget might look like in 2011-12 and beyond. I will share that information at the meeting.

*C. Receive the Superintendent's Budget Message*

I will deliver the 2010-11 budget message to you on Monday night. Overall, the proposed budget totals \$296.2 million, an increase of \$5.8 million or 2% from the 2009-10 adopted budget. This primarily represents increases in the general fund as contingencies and the unappropriated ending fund balance (UEFB) were brought up to board policy levels, and the insurance reserve fund due to anticipated increases in health care costs. Smaller increases occurred in the debt service and fleet and equipment funds. Offsetting the increases are declines to the federal, state and local grants fund as ARRA funding sunsets and the capital projects fund due to fully expending bond proceeds in 2009-10.

The proposed general fund operating budget of \$144.9 million (excluding contingency and UEFB) has increased by \$1.1 million—or 0.8% which is not enough to maintain current service levels. Budget reduction strategies included using reserves of \$5 million, reducing central office and administration budgets by \$1 million and reducing staffing which lowered the budget by an additional \$1.2 million.

In January, you provided me direction on issues to consider when preparing the proposed budget. Specifically that the budget:

- Is guided by the district's mission, core values, board goals and key results,
- Retains sufficient reserves to meet cash flow needs, maintains the district's bond rating, and achieves board targets for contingency and reserves,
- Sets aside funding to offset anticipated future Public Employee Retirement System (PERS) rate increases,
- Takes into consideration stakeholder feedback,
- Positions the district to implement sustainable budgeting practices, and
- Addresses the projected shortfall by making service or cost reductions, using the following criteria:
  - Focus on the instructional core, keeping board goals and key results at the forefront of decisions;
  - Retain sufficient funds to manage the required human resource, financial, information technology, leadership and facility maintenance activities of the district;
  - Minimize layoffs to the extent possible;
  - Be mindful of the long-term, avoiding short-term solutions that may have harmful long-term consequences.

With the exception of setting aside additional funds for projected PERS rate increases, I believe this budget responds to that direction. It reallocates certain funding to provide support to schools that directly addresses board and superintendent goals, as well as instructional priorities. In order to balance the budget, reserves were reduced to board policy levels (5% of operating revenues for the UEFB and 2% of operating expenditures for contingency); further reductions were made to central services, and 28 FTE teaching positions were eliminated, including reductions due to enrollment declines.

The proposed budget preserves key items such as student-to-teacher ratio, school days, support to implement new graduation requirements, and certain initiatives to address the achievement gap including math, literacy, and summer school programs. Funding directed to schools with higher needs students remains in place, albeit at lower levels. Over 11 licensed FTE and almost 21 classified FTE were allocated to schools based on student demographics. Additionally, funds have been reallocated to support educational equity initiatives.

On April 30<sup>th</sup>, the state provided us with updated funding information. Based on that information, it appears that we will have approximately \$1.2 million in additional one-time resources. I am recommending that after the committee reviews the proposed budget, that the following three options be discussed for the use of those one-time funds:

1. Reinstate the \$1 million PERS reserve transfer and increase ending fund balance by \$200,000, or

2. Reinstate 4 FTE for K-8 physical education which would provide a one-year transition period and transfer the approximately \$850,000 balance to the PERS reserve, or
3. Reinstate 4 FTE for K-8 physical education, provide \$250,000 for district-wide music and art programs and transfer the approximately \$600,000 balance to the PERS reserve.

Even with the good news of the additional \$1.2 million, this budget appears to be one that is in the “eye of the storm”. Dramatic reductions were made to the 2009-10 budget and if forecast projections are reasonably close, 2011-12 will be even more difficult financially than last year. Prudent and timely financial planning and continued support from our community place our district in a better position to weather this storm than many districts in Oregon. The budget reductions made this year were difficult, but we must immediately begin preparing for the future. Our foresight to begin planning for future constrained state resources and increased public retirement costs will provide more time to process our options. Difficult discussions about further program cuts, school consolidations and determining how to deliver services while continuing to further board goals need to begin in order to have time to develop sustainable cuts that bring our service level in line with our revenue stream. I am confident that we will continue to be one of the strongest districts in Oregon and will come through this adversity stronger and more focused on our goal – increased achievement for all students.

Your packet includes two articles from the *American School Board Journal* – “Offering Benefits in a Downturn” which provides insights on pension and health care costs, and “Dealing with Decline”, an article on school district revenue shortfalls across the nation. I hope these articles help inform your discussion Monday night.

#### *D. Review Proposed 2010-11 Budget*

Staff will briefly review the budget document, including the status of each fund.

### **IV. Items for Action at This Meeting**

#### *A. Approve Use of \$1.2 Million One-time Funds*

As mentioned in agenda item II.C, the state has updated district funding estimates, and the district will have approximately \$1.2 million of additional one-time funds in 2010-11. I am recommending that the committee approve one of the following three options for use of those funds.

1. Reinstate the \$1 million PERS reserve transfer and increase ending fund balance by \$200,000, or
2. Reinstate 4 FTE for K-8 physical education which would provide a one-year transition period and transfer the approximately \$850,000 balance to the PERS reserve, or
3. Reinstate 4 FTE for K-8 physical education, provide \$250,000 for district-wide music programs and transfer the approximately \$600,000 balance to the PERS reserve.

*B. Motions to Approve Budget and Declare Tax Rates and Debt Service Levy (If review is complete)*

According to Oregon Local Budget Law, the Budget Committee approves the budget, sets the tax rate and debt service levy and forwards this recommendation to the governing body for public hearing and action. The appropriate motions are described below:

1. Approve the Budget Total for All Funds, including:
  - a. General Fund Total of \$152,791,000 or as amended by the budget committee.
  - b. Other Funds Total of \$143,457,859 or as amended by the budget committee.
2. Declare the Tax Rates and Debt Service Levy:
  - a. General Fund tax rate of \$4.7485 per \$1,000 of assessed valuation of the district.
  - b. Local Option Levy tax rate of \$1.50 per \$1,000 of assessed valuation of the district.
  - c. Debt Service Fund tax levy of \$15,488,327.

*C. Approve Minutes from the February 8 and 22, 2010 Budget Committee Meetings*

Copies of the minutes from the above meetings are included in your packet. I recommend that the Budget Committee approve the minutes.

*D. Set Date of Next Meeting or Set the Budget Hearing*

If your review is not complete, I recommend that the committee set the next Budget Committee meeting for May 17, 2010. If your review is complete, I recommend that the committee set the official public hearing to be conducted by the board of directors for June 2, 2010.

**V. Items Raised by Budget Committee Members**

**VI. Adjournment**