

EUGENE PUBLIC SCHOOLS
Lane County School District No. 4J
May 5, 2011

MEMORANDUM

To: Budget Committee Members

From: George Russell
Superintendent

Re: May 9, 2011 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 2011-12 – 2014-15 General Fund Financial Forecast

Since January we have updated our forecast and balanced the proposed 2011-12 budget to reflect the \$5.7 billion state budget for K-12 education signed by Governor Kitzhaber and budget reductions implemented in response to the sustainable budget process. A copy of the general fund forecast is included in your packet. Staff will review the forecast at the meeting.

B. Receive the Superintendent's Budget Message

At the May 9th meeting, I will deliver the 2011-12 proposed budget message, and staff will review major elements of the proposed budget. I have worked with staff to develop a budget that is based on the \$5.7 billion K-12 education budget signed by Governor Kitzhaber, taking into consideration the sustainable budget strategies approved by the board in February.

Overall the proposed budget totals \$272 million, a decrease of 7% from the 2010-11 adopted budget. The greatest reductions were in the general fund, in response to decreases in state funding; however, budgets were reduced in almost every fund. Spending for capital improvements and equipment is restricted to remaining capital reserves unless the bond measure is approved by voters this month. Lower grant budgets reflect the expiration of ARRA funding. Small decreases were also made in the insurance reserve, debt service, retirement, and nutrition services funds.

The 2011-12 proposed budget was developed as our nation and state continue their struggle to emerge from the Great Recession, and it is apparent that recovery from the recession will be much slower than initially hoped. With financial support from our community, the state and the federal government, we have weathered these turbulent financial times thus far. However, it is important to recognize that our school district must sustainably adjust to a new era of diminished resources. In such times, we are guided by the board's goal of providing prudent stewardship of district resources to best support student success, educational equity and choice.

To address this goal, in August we embarked on a seven-month sustainable budget process involving members of our community and district stakeholder groups. The key outcome of the process was to achieve a sustainable budget by 2014-15 that:

- Maintains reserves at or above board targets,
- Minimizes the use of one-time funds for ongoing expenses,
- Optimizes the use of short-term resources to improve student achievement, and
- Increases operational efficiency while reducing long-term capital needs.

In February, the board approved several sustainable budget strategies which included staff, services and supply reductions; increased revenues; school closures; the use of reserves; and employee compensation reductions. In addition to these strategies the proposed budget was developed using the following principles:

- 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, 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.

The general fund operating budget of \$135 million (excluding contingency and UEFB) has decreased by \$7 million, or by 5%. Due to using substantial reserve strategies to fund the operating budget in prior years and a significant increase in state mandated pension costs, the shortfall from current service level is over \$21 million. While balancing the proposed 2011-12 budget was difficult, it is clear that the stark reality of implementing the reductions will be extremely painful. To address the shortfall, the following budget reductions were made:

- \$5.0 million – Reserves
- \$3.5 million – Central office and administration budgets
- \$900,000 – School closures and consolidations
- \$400,000 – Athletics and extra-curricular activities

- \$7.4 million – Staff reductions
- \$4.5 million – Additional staffing or employee compensation strategies

Reductions made to central services resulted in the elimination of almost 30 FTE. School support staff and administrators were reduced by 35 FTE, and 72 FTE teaching positions were cut, including reductions due to enrollment declines. These cuts, the largest in district history, come on the heels of several years of significant service reductions and precede what is projected to be another year of sizeable reductions in 2012-13 due to continued constrained state resources and the use of one-time resources to support ongoing expenditures.

Given the combined magnitude of cuts over the last several years, keeping budget reductions from negatively affecting students and the community is unavoidable; however, we have done our best to minimize negative student impacts. We will continue to monitor the progress of individual student achievement to determine intervention needs. We have reallocated or continued providing resources for programs which directly address board and superintendent goals and instructional priorities. The proposed budget contains math intervention staffing in secondary schools to support students not meeting benchmarks as well as funding to continue the summer bridge program and provide online/credit recovery options for assistance to students at risk of dropping out of high school. Funding to schools with higher needs students and to support educational equity initiatives continues, albeit at lower levels. Over 11 licensed FTE and 21 classified FTE are allocated to schools based on student demographics to serve students with the highest needs.

Two ballot measures that could affect the district's financial picture will be voted on the week after I present this budget. The City of Eugene's temporary local income tax to support schools will provide the district with approximately \$12 million each year, beginning May 2012 if passed. Funds would be used to reduce anticipated class size increases and maintain instructional days. The district's \$70 million bond measure will be used to provide better instructional facilities for students and will permit \$1 million of building repair costs to be shifted from the general fund to bond funding for six years, if approved by voters. Even if both measures pass, the district must make significant reductions to the 2011-12 budget due to reduced state funding, declining enrollment, expiration of federal stimulus funds, rising costs, and the use of one-time resources to support ongoing expenditures.

State legislators are currently discussing the adoption of a higher K-12 budget for the 2011-13 biennium than was signed by the Governor. Education advocates hope that a positive state economic forecast in May will encourage legislators to release another \$100 million from state reserves for K-12 education. Should this occur, our district could expect to receive an additional \$1.5 million per year for the biennium.

If either of the measures pass or the state provides a higher level of funding, I recommend that additional funds first be used to add staffing specifically targeted to increase student achievement.

C. Review Proposed 2011-12 Budget

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

IV. Items for Action at This Meeting

A. Approve Minutes from the October 18 and November 22, 2010 and January 24, 2011 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.

C. Set Date of Next Meeting

I recommend that you schedule approval of the 2011-12 budget for Monday, May 23, 2011. Once you have approved the budget, you can determine the date of the official public hearing to be conducted by the district board of directors.

V. Items Raised by Budget Committee Members

VI. Adjournment