

Lane County School District 4J

Budget Committee
Meeting

January 9, 2012



Agenda

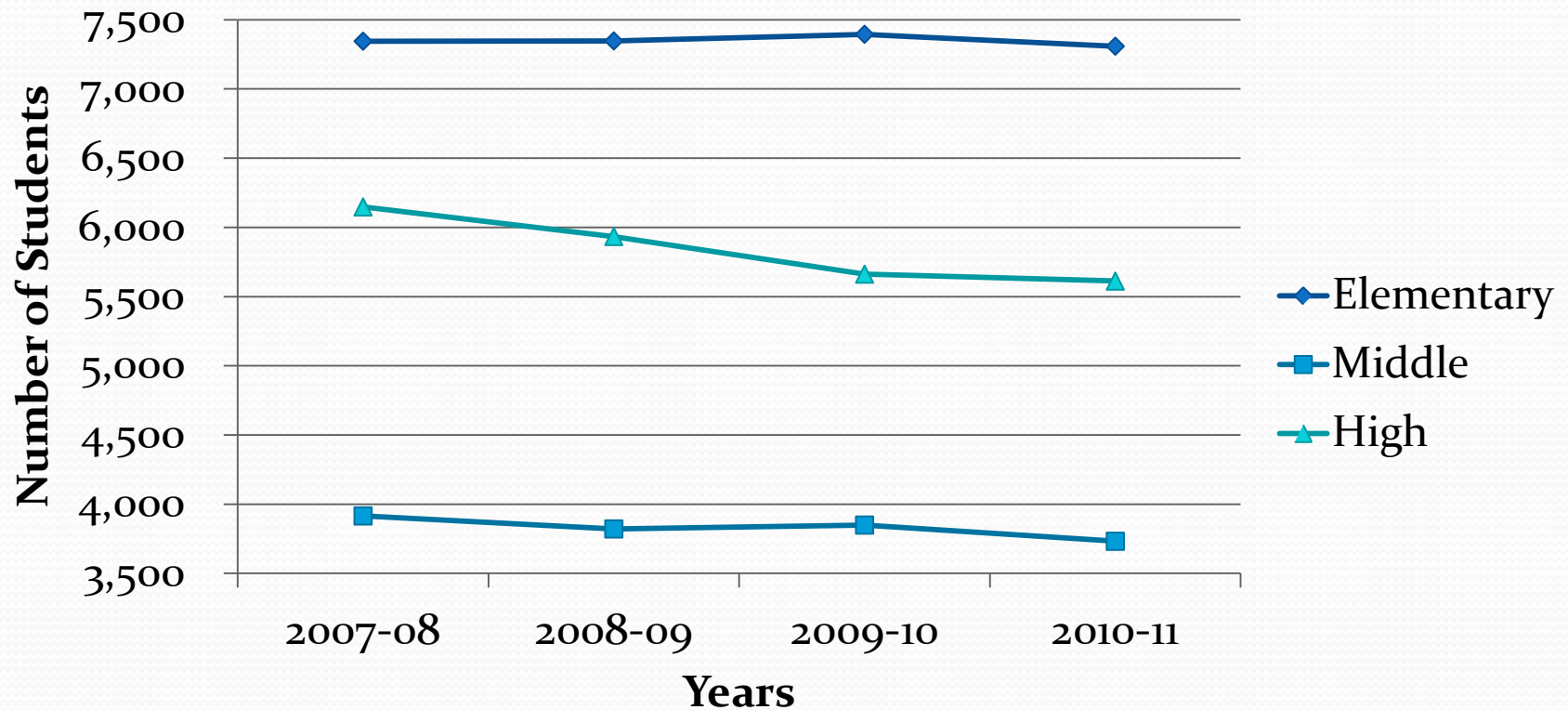
- Election of Officers
- Items Raised by the Audience
- Items for Information and Discussion:
 - Enrollment Projections
 - Open Enrollment for Out-of-District Students
 - Status of District's Capital Improvement Program
 - Updated 2011-12 GF Projection
- Items for Action
 - Review the Draft 5-year Financial Forecast and Offer Direction
 - Approve Minutes
- Items raised by the Budget Committee/ Questions



Enrollment Projections

Historic Trends in Enrollment

Actual Enrollment Trends, 2007-08 to 2010-11



Enrollment Projection (K=1)

5-years (2012-17)

(K=1) LEVEL	Actual 10/1/11	Projected				
		2012-13	2013-14	2014-15	2015-16	2016-17
K-5	6,971	6,883	6,834	6,786	6,723	6,701
6-8	3,769	3,826	3,703	3,581	3,433	3,313
9-12	5,343	5,089	5,021	4,957	4,973	4,963
Post Grad	32	27	27	27	27	27
TOTAL	16,115	15,825	15,585	15,351	15,156	15,004
	YOY % chg	-1.8%	-1.5%	-1.5%	-1.3%	-1.0%

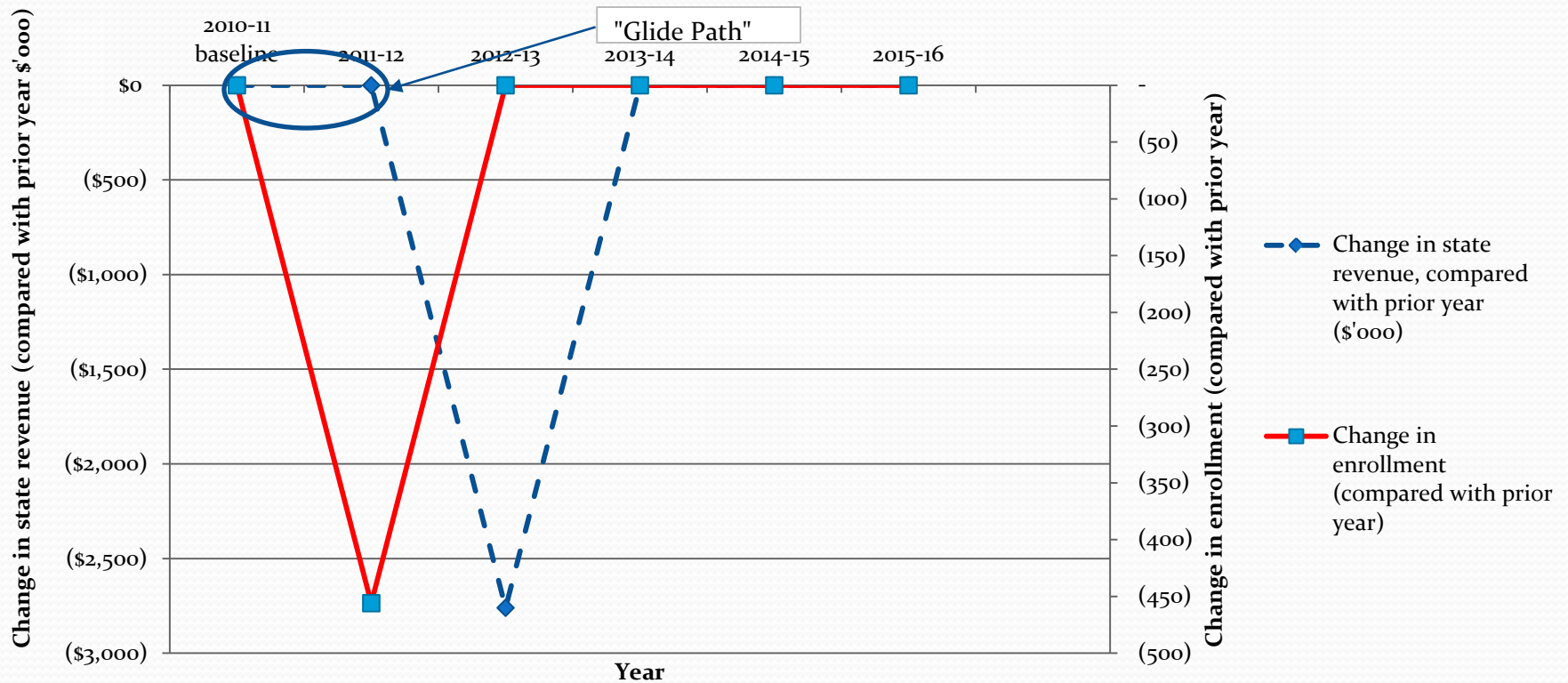
Enrollment Projection (K=0.5)

5-years (2012-17)

(K=0.5) LEVEL	Actual	Projected				
	10/1/11	2012-13	2013-14	2014-15	2015-16	2016-17
K-5	6,420	6,293	6,253	6,215	6,183	6,163
6-8	3,769	3,826	3,703	3,581	3,433	3,313
9-12	5,343	5,089	5,021	4,957	4,973	4,963
Post Grad	32	27	27	27	27	27
TOTAL	15,564	15,235	15,004	14,780	14,616	14,466
	YOY % chg	-2.1%	-1.5%	-1.5%	-1.1%	-1.0%

Delayed Revenue Effect of Fall in Enrollment

Lagged Effect of Changes in Enrollment



Inter-district open enrollment

New legislation (HB3681) effective with 2012-13 school year

School districts may enroll out-of-district students:

- Without consent from each student's resident school district
- Specific timeline & requirements
- School funding follows the student

Inter-district open enrollment

New legislation (HB3681) effective with 2012-13 school year

By March 1

- Board decides whether to open enrollment to out-of-district students for 2012-13 and how many students to enroll. May limit based on school or grade.
- Board approves criteria for accepting students.

By April 1

- Accept applications from out-of-district students.
- Lottery required if more applicants than openings.

By May 1

- Notify students that have been accepted and their resident school districts.
- After May 1, students may be accepted only with the consent of their resident districts or by paying tuition.

Out-of-district students enrolled in 4J

New legislation (HB3681) effective with 2012-13 school year

Out-of-district students accepted without consent of resident district:

- Are considered 4J students for educational purposes until they graduate, exit public school or enroll in a different school district.
- May or may not have the same school choice priority as resident 4J students in future years.
 - **The district has discretion to determine this school choice priority.**

Timeline for board decision

Jan 11 Board Meeting

Present recommendation for enrolling out-of-district students in 2012-13:

- Number of students to accept
- Criteria for accepting students

Jan 18 Board Meeting

Action on recommendation

or

continue discussion with action on February 1

Status of the District's Capital Facilities Plan (\$35 million 2011 bond)

Project timing	Description	Amount (\$'000) Thousands
Projects Completed to date	Roofing, field replacements, Willagillespie Phase I	\$4,361
Projects scheduled for completion in 2011-2012	Transportation facilities, NEHS parking lot and greenhouse	1,683
Projects scheduled for completion in 2012-13	Technology upgrades, Willagillespie Phase II, Roofing/ Seismic, Paving, Electric and Safety system upgrades	16,352
TOTAL		22,396

Updated 2011-12 Adopted General Fund Projection

- Higher than anticipated beginning fund balance (\$1.6 million - \$0.5 million of which will be reduced off 2011-12's State School Fund (SSF) Revenue.)
- Drop in Local Option Revenue (\$800,000); offset by increase in SSF sources (\$750,000)
- Higher compensation expenditures (\$2.3 million) primarily due to lower than budgeted savings from employee contract negotiations.
- Corrective action comprises:
 - Transfers from other funds increased by \$1 million
 - Use of Contingency for remainder

Draft Five-Year Financial Forecast

- Budgeting and Accounting Guidelines
- 2012-13
 - Economic Context
 - Revenues
 - Expenditures
- 2012-16 Economic Context
 - Forecast Assumptions
- Summary budget position
- Recent History of Budget Adjustments
- Reserves and Transfers
- Guiding Principles for preparing the 2012-13 budget

Budget and Accounting Guidelines

- Conforms to GAAP, GASB and Oregon local budget law
- Uses a Fund structure which delineates by:
 - Specific activities e.g. nutrition services
 - Legal limitations on fund uses e.g. bond
- Adheres with Board policy
 - Contingency accounts exist for each Fund; Board target 2% of Operating Expenditures
 - An Ending Balance is assigned for the General Fund; Board target 5% of General Fund Revenues*
 - Transfers may be effected between Funds with certain limitations

GFOA recommends a minimum fund balance of ~17% of Operating Expenditures

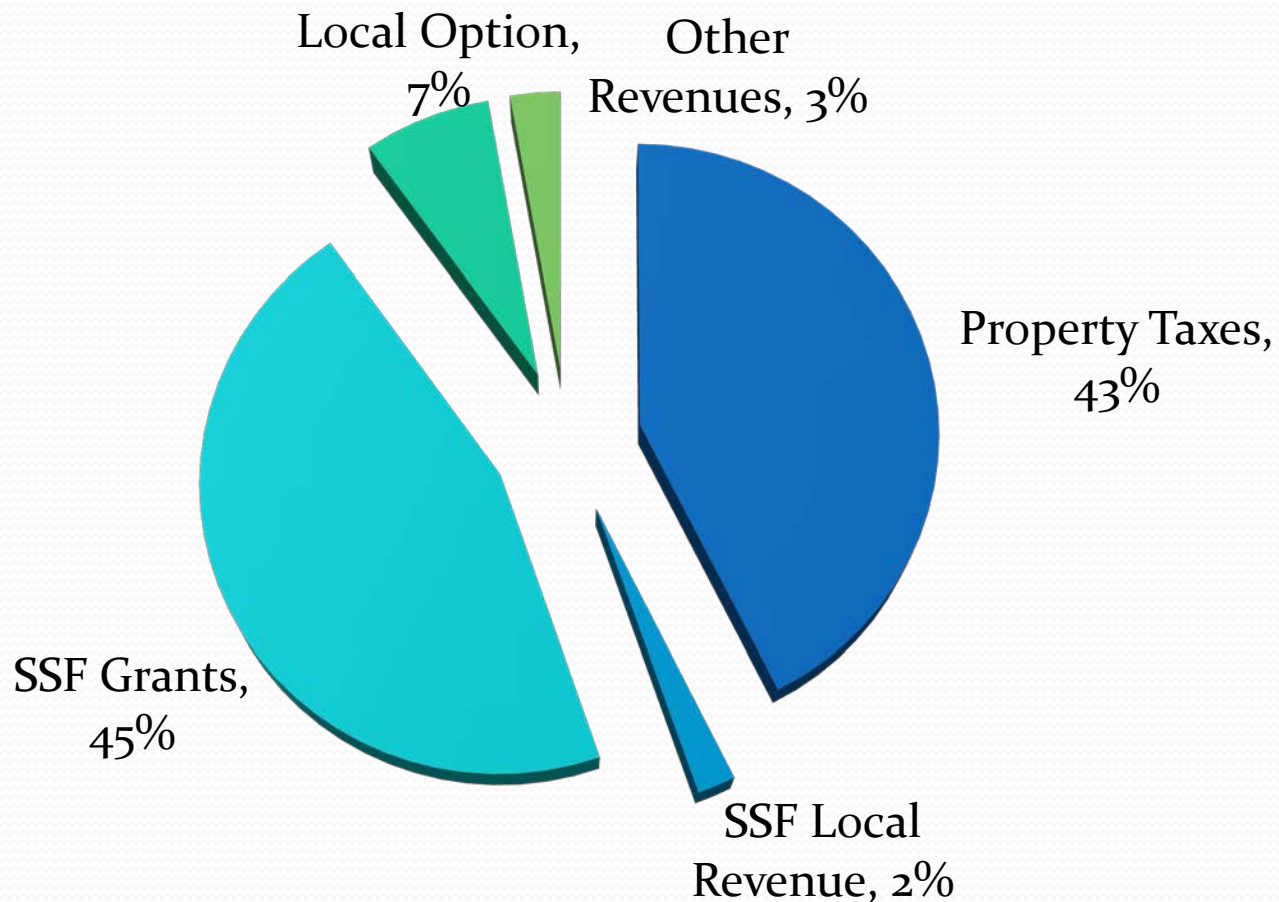
2012-13 Economic Forecast

- Economic assumptions, consistent with the State's Economic Forecast (Dec-2011):
 - Oregon's economic expansion has been put at risk by external factors, notably the sovereign debt crisis and unfolding recession in Europe.
 - The base case scenario is a slow and uneven economic recovery; contingency planning remains a must.
- ➔ Income and Property Taxes are likely to remain depressed over the coming year

2012-13 Forecast Revenue Overview

\$ thousands		Projected		Forecast
		2011-12		2012-13
State School Fund Grants (SSF)	\$	63,582	\$	59,918
Property Taxes		54,509		56,290
Other SSF Revenues		2,823		2,654
Total SSF Formula Revenue	\$	120,913	\$	118,862
Local Option Levy		9,998		9,369
Other Revenues		3,716		3,695
Total District Revenues	\$	134,628	\$	131,926

Composition of 2012-13 Forecast Revenue, by Source



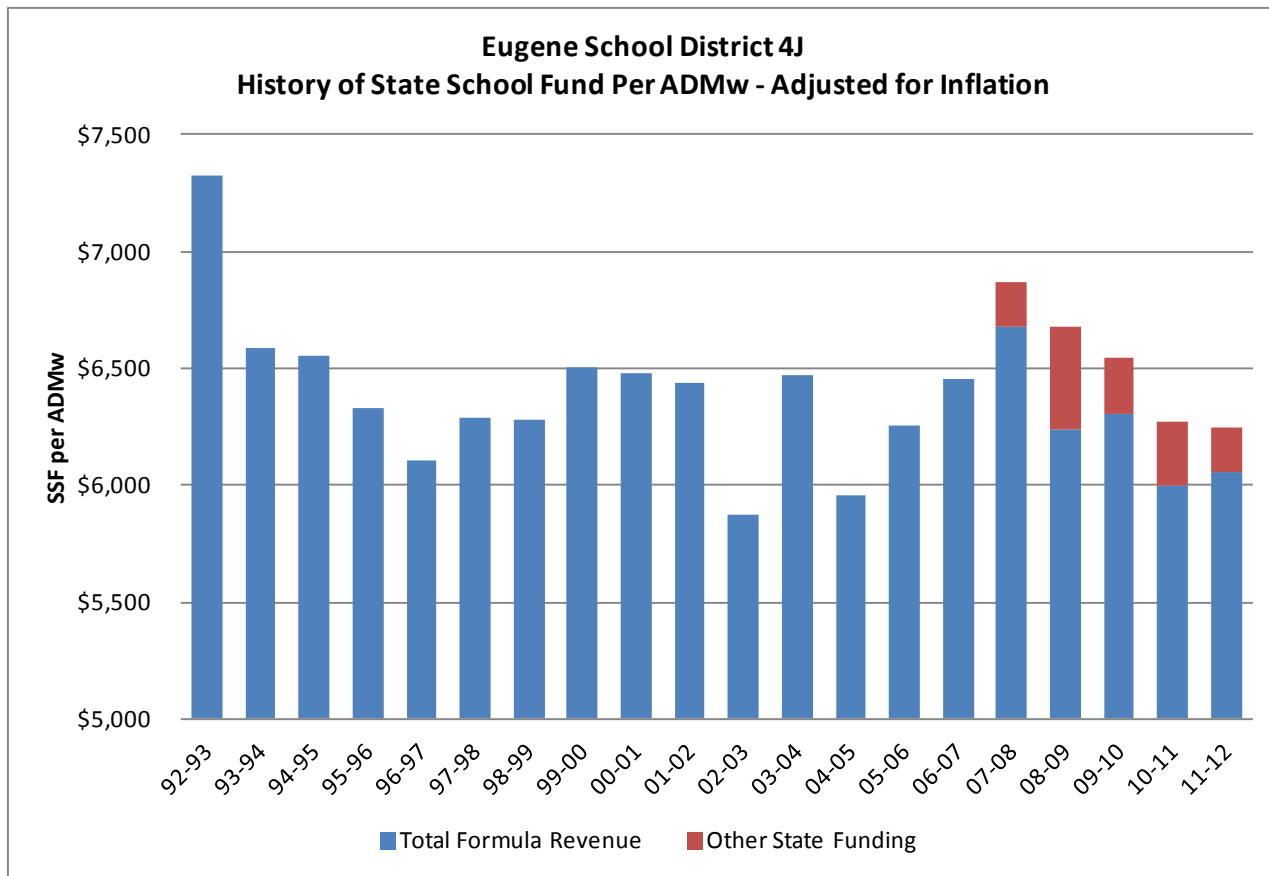
Total Formula Revenue = SSF Grants + Local Revenues

Local Revenues = Property Taxes + Federal Forest Fees + County and Common School Fund

State School Fund Formula Revenue (SSF)

- SSF Grant Driven by:
 - Average Daily Membership adjusted for student characteristics and greater of current or prior year
 - Base State Funding Amount (per pupil)
 - Teacher Experience Adjustment
 - Transportation Grant (70% qualifying expenditures)
- Property Taxes
 - Included in calculation of Total SSF Formula Revenue – the State equalizes this amount
 - Assessed property values assumed to increase 2.5%
- SSF Local Revenue: Federal Forest Fees, Common School Fund, County School Fund
- SSF has decreased due to declining enrollment and reduction in one time School Year Subaccount grant

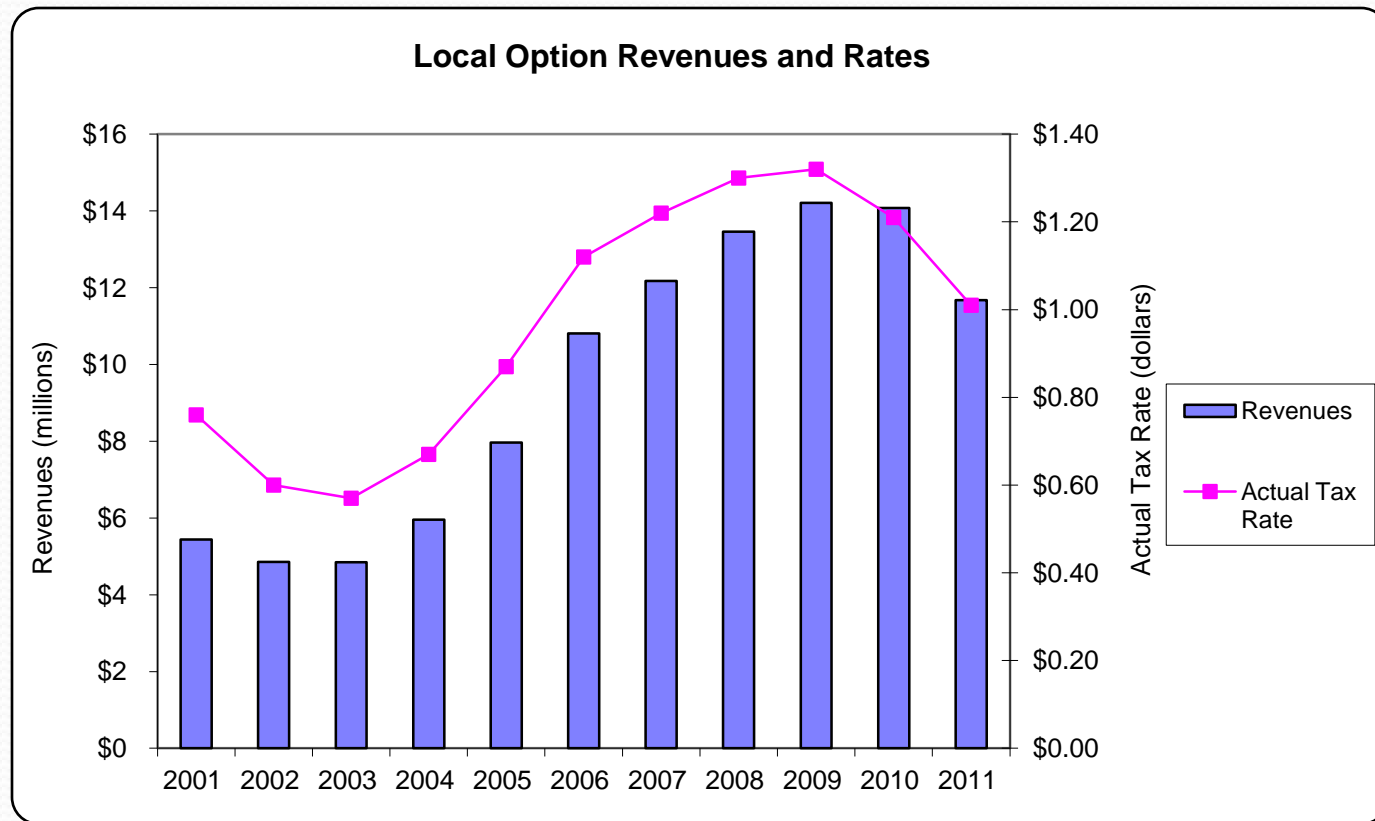
State School Fund Grant Revenue has been Declining



Local and Other Operating Revenue

- Local Option Levy
 - Dependant on local property values – assessed values and market values
 - Highly variable
 - Lower due to declining local property values
- Other Revenue
 - Principally comprises: interest earnings, tuition revenue, rental income, indirect charges on grants
 - Interest earnings significantly lower due to lower interest rates and fund balance

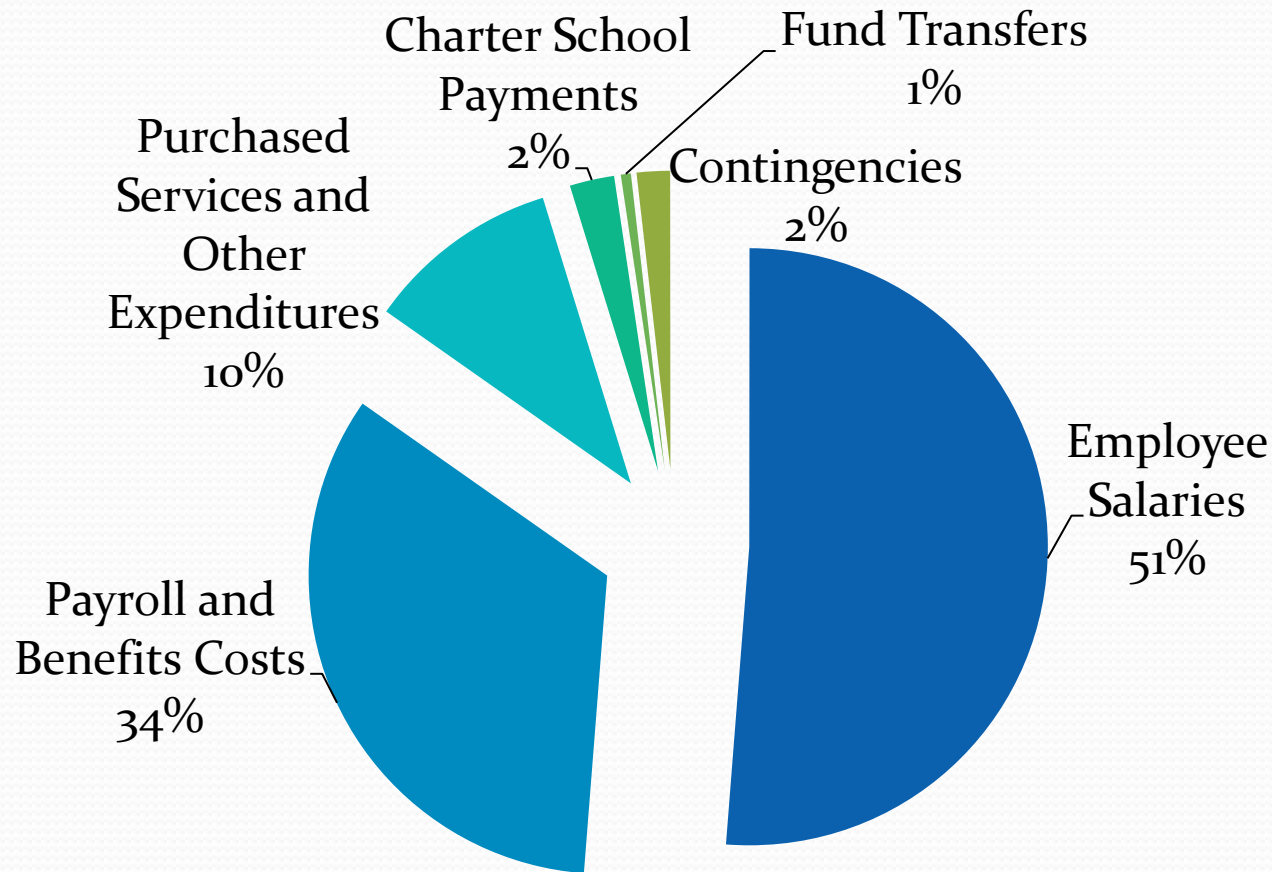
Local Option Revenues and Rates



2012-13 Forecast Expenditures Overview

\$ thousands		Projected		Forecast
		2011-12		2012-13
Employee Salaries	\$	71,671	\$	73,983
Payroll and Benefits		46,877		47,655
Purchased Services and Other Expenditures		14,656		14,458
Charter School Payments		3,374		3,572
Total Operating Expenditures	\$	136,577	\$	139,668
Transfers		759		3,538
Contingency		2,540		3,693
Total Expenditures	\$	139,876	\$	146,898

Composition of 2012-13 Expenditure, by Object



Employee Salaries

- Governed by Agreements with Employee Groups
 - 4J has three separate employee bargaining groups:
 - Licensed
 - Classified
 - Substitutes
 - Administrator and Professional Salaries agreed through a Statement of Understanding
- Structure of Salaries:
 - Employees in all groups advance annually on steps, until maximum step is reached (up to 15 years), and advancing staff receive annual salary increases driven by this automatic step movement

Salaries and Benefits Costs

- Changes in Salary Costs Due to:
 - Return to regular employee step movement on Salary Schedule
 - Eligible licensed and administrative staff moved half steps in 2011-12
 - Eligible classified staff moved full steps using insurance reserve funding
 - Restoration of furlough days agreed for 2011-12:
 - Five days for Licensed, Classified, and Administrative
 - Six days for Administrative Leadership Employee advancement along steps
 - Decrease in Licensed staff tracks enrollment
 - Potential additional staffing provisions for impact of open enrollment or changes in Federal Funding
- Increase in Benefit Costs
 - Reflects forecast inflation rate increases
 - Reflects changes in staffing levels

Purchased Services and Other Expenditures

- Assumed to increase by the rate of inflation
- Includes:
 - \$155k in baseline cost increases over 2011-12 for higher fuel costs and additional routes resulting from closed schools
 - Additional costs resulting from higher utility rates are being absorbed into current allocations due to energy saving measures funded from bonds
- Charter School payments reflect state minimums plus a share of local option revenue

2013-16 Economic Outlook

- Economic recovery expected to be slow and uneven
 - Improvement in employment rates expected to be slow
 - Growth in personal income to remain at historically low levels
- Property values likely to begin slow, steady recovery
- Downside risk of double dip recession if major disruptions to global banking industry

2013-16 Financial Forecast

Major Assumptions

- Revenue growth is expected to be slow based on the following:
 - Low property values
 - State School Funding Growth rates assumed to increase at rate of CPI
 - Further projected declines in enrollment will drag down revenues
- Operating Expenditures assumed to grow:
 - at the rate of the CPI
 - PERS rates assumed to increase by 3 percentage points in 2013

Corrective Action Required, if Annual Deficits are Addressed with Ongoing Actions

Year	Annual Deficit \$'000
2012-13	(\$11,202)
2013-14	(\$3,211)
2014-15	(\$56)
2015-16	N/A

Recent District Funding Level Changes

History of Cuts

(millions)	Total	On-going Reductions	Use of Reserves	Compensation Agreements
2011-12	\$20.4*	\$12.2	\$5.0	\$3.2*
2010-11	\$14.0	\$2.2	\$8.4	\$3.4
2009-10	\$21.7	\$6.4	\$12.4	\$2.9

* Budgeted reduction strategies included \$4.5 million in negotiated compensations or further staff cuts. Compensation was decreased by \$3.2 million and staffing was not further reduced.



Questions



Reserves

Summary of Fund Balance/ Reserve Accounts

Fund	Amount as at June 30, 2011 (\$'000,000 in millions)
General	8.0
Fleet and Equipment	7.2
Student Body	3.7
Debt Service	10.5
Capital Funds	6.9
Nutrition Services	0.1
Insurance Reserves	10.4
Post Employment Benefits	5.3

Two budget questions:

1. Are the funds available or restricted?
2. If the fund receives a transfer from General Funds, can we suspend this for a year?

Purpose of Reserve Accounts

Fund	Purpose	Level of Restriction
General	Comprises the ending Fund balance in the General fund.	5% of the ending fund balance is restricted under the Board Policy.
Fleet and Equipment	Reflects carry-forward budgets for schools and departments.	Approximately \$1.9M is restricted for application against bus costs.
Student Body	Accumulate student body funds.	Funds belong to students and are legally restricted from district use.
Debt Service	Fund used to pay interest and principal on the District's outstanding debt.	Funds legally restricted for use against outstanding debt obligations.

Fleet and Equipment

\$'000	30 June 2011	Projected June 2012	
Schools	1,130	Unknown	A portion of prior year budget retained for larger purchases for 39 units (\$30,000/ school).
Transportation and Motor Pool	1,940	1,900	For lease/ purchase of vehicles.
Facilities Management	830	730	Purchase of equipment for custodial, grounds services, and facility maintenance.
Information Technology	760	760	For purchase of equipment such as servers, software customization. Approx. \$350,000 related to multi-district consortium, some belonging to those districts.
Instruction	720	0	Being used to support current instructional services.
Special Education	170	170	Reserve for special education costs.
Support Services	390	300	Being used to support current operations.
Miscellaneous	450	450	Potentially available.
Equipment	820	820	Reserve for school equipment purchases.

Purpose of Reserve Accounts (Cont'd)

Fund	Purpose	Level of Restriction
Capital Funds	Funds identified for expenditures on capital items.	Some legally restricted funds, such as proceeds of bonds.
Nutrition Services	To track nutrition services revenues and costs.	No restriction. Goal for fund self sufficiency.
Insurance Reserves	Funds used to provide for self insurance and balance of funds held for employee benefits.	Some legally restricted funds , others are restricted as part of prudent financial management.
Post Employment Benefits	Funds set aside to pay for obligations under early retirement programs.	Restricted as part of prudent financial management (accrual accounting).

Capital Funds

\$'000	30 June 2011	Projected June 2012	Description
Capital Repairs	\$1,200	\$700	Available for youth sports park maintenance, athletic equipment/ facility repairs and improvements, and instructional program driven building and site modifications. Annual \$500,000 appropriation suspended for 2011-12 therefore only very limited funds available for unanticipated capital needs (not covered by the bond). Includes \$400,000 staffing costs. Maintain for district facility needs and fiscal prudence.
Bond Projects	(1,000)	29,000	Legally restricted. Funds were replenished through proceeds of recent bond issues.
Sale of Surplus Property	6,700	5,700	Use is restricted by board policy. In 2010-11 reserve was drawn down by \$3 million for preventative maintenance, roofing, field turf and a transfer to the general fund. For 2011-12, fund was held for critical facility needs, in the event that last year's bond measure failed. This years uses include approx. \$300,000 salaries; approx. \$400,000 for preventive maintenance; and approx. \$300,000 will be used for school consolidation costs. Limited availability. May be replenished by further rationalization of district facilities.

Insurance Reserves

\$'000	30 June 2011	Projected June 2012	Description
General Risk	2,060	1,700	Used for deductibles and district self-insurance. Also used to pay for part of the district's risk management operating costs. This fund has been depleted every year, recently. Maintain for fiscal prudence.
Licensed Insurance	1,940	1,800	Legally restricted. These insurance reserves relate to benefits and are jointly managed by the District and its employee groups. The funds, as agreed in compensation agreements, are contributed by the district. A share of these funds have been used to make one-time payments to employees under collective bargaining agreements.
Classified Insurance	4,490	4,400	
Administration Insurance	700	600	
Wellness Clinic	1,200	1,200	

Post-Employment Benefits (formerly known as “District Retirement Fund”)

- Comprises two elements as at June 2011:
 - Provides for expected increase in PERS rates (\$2.5M)
 - Set aside to pay for the costs of early retirement program (\$2.8M)
- Increase in PERS rates happened in 2011-13 biennium and this balance of approx. \$2.5M is being drawn down, as planned. It will be fully utilized by the end of the 2012-13 year.
- The early retirement program (stipends, benefit contributions, and benefit top ups) will be drawn down

Potentially Available Funds

Fund	Projected Available (\$'000)	Impact of Use of Funds
Require board action:		
General - Reduce Minimum Fund Balance to 4%	\$1,350	Reduces safety net for changes in revenues; unforeseen events.
Capital – Surplus Property	?	Facility review may recommend further rationalization and sale of schools, which would replenish this fund.
Available:		
Fleet – Unassigned	\$450	Reduces funds available for equipment purchases and updates. Fund have also been used for general operations recently.

General Fund Transfers to Other Funds Included in Forecast

- Capital Funds - \$520,000
 - Transfer eliminated in 2009, 2010 and 2011 due to budget reduction strategies
- Fleet and School Equipment Funds - \$1.9 million
 - District-wide critical needs transfer and transportation bus lease reimbursement of \$1.4 million eliminated in 2009, 2010 and 2011
 - \$500,000 transfer to school equipment maintained
- Insurance Reserve Funds - \$600,000
 - \$200,000 required by employee contracts
 - \$300,000 to support risk management operations

General Fund Transfers to Other Funds Included in Forecast

Fund	Transfer (\$'000)	Recent Action – Suspended			
		08-09	09-10	10-11	11-12
Capital Projects	\$520	X	X	X	X
Fleet Funds – Textbooks	\$500				X
Fleet Funds – Equipment	\$1,200	X	X	X	X
Fleet Funds – Transportation	\$161	X	X	X	X
Insurance Reserves	\$224				
General Risk	\$375 (+ \$511 replenishment in 12-13)				
TOTAL	\$2,960				



Questions

Committee's Direction for Superintendent's Recommended Budget

- Focus on Mission, Core Values, Board Goals, and Key Results
- Ensure Sufficient Reserves
- Be mindful of Sustainable Budget Guidance
- Continue service or cost adjustments:
 - mindful of retaining focus on instructional core, and
 - minimum operating needs.



Items Raised by Budget Committee



End

01/13/2012