

**LANE COUNTY SCHOOL DISTRICT 4J
(EUGENE PUBLIC SCHOOLS)
LONG-TERM FINANCIAL FORECAST**

2011–12 — 2015–16

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Sheldon Berman, Superintendent

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FORECAST FRAMEWORK

This financial forecast has been prepared in response to the district's adopted management goal of maintaining long-term financial stability. The forecast establishes key assumptions underlying the projections and identifies variables which may cause the projections to change. Its purpose is to provide the fullest picture of the district's financial future so that decision-making today can support high quality and innovative educational programs tomorrow.

In Board Policy DA, the district's Financial Management Goals and Policies provide the framework for financial planning and decision-making by the school board, budget committee, and district staff.

1. "The district will establish a financial base sufficient to support high quality and innovative educational programs which meet community needs."
2. "The district will follow prudent and professional financial management practices in order to achieve and maintain long-term financial stability."
3. "The district will demonstrate to the taxpayers of the district and the financial community that its schools are well managed."
4. "The district will provide cost effective services to citizens by cooperating with other educational, government, and non-profit agencies."

5. "The district will have an adequate capital improvement program that maintains existing district assets, provides for student and employee safety, maintains a quality instructional environment, and allows for enhancements that are necessary to meet changes in enrollment."

6. "The district will continually review and improve its formal budget document and other financial information so that it clearly and openly communicates its resources, expenditures, and financial position."

7. "The district will communicate, as permitted by law, with its employees and the community so that they understand the district's program requirements and financial status."

Board Policy DI provides additional direction for the planning and allocation of resources:

1. "The district estimates revenues, operating and capital expenditures, and debt service every year for the following five years. Annually, the superintendent will propose a financial forecast that is reviewed and potentially modified by the budget committee or board. This forecast serves as the basis for budget instructions to the superintendent for the following year and for other financial planning activities."

GENERAL FUND FORECAST

Summary of Long-Term Forecast – General Fund

This document provides in-depth information on the development of Lane County School District 4J’s financial forecast. Results and key assumptions are summarized below. The accompanying pages are integral to understanding this summary information. As the table below indicates, operating losses are projected in every year of the forecast. In the aftermath of an unprecedented level of budget reductions in 2011-12, the forecast reflects the potential need to make another \$10.9 million and \$3.2 million in on-going budget reductions in 2012-13 and 2013-14, respectively. A surplus is generated in 2015-16, assuming revenue growth resulting from an economic recovery and expenditure increases limited to the rate of inflation. See page 12 for detail of proposed 2011-12 reductions.

Annual Operating Deficit (in thousands)				
2011-12	2012-13	2013-14	2014-15	2015-16
(\$3,589)	(\$12,781)	(\$14,471)	(\$14,442)	(\$11,423)
Annual Reductions Required, Assuming Use of Reserves above 5% and Annual Corrective Action Taken				
\$0	(\$11,202)	(\$3,211)	(\$56)	N/A

Key Messages

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- The financial forecast was developed as the nation and state continue to struggle with the effects of the Great Recession. Key assumptions are based on the December 2011 State Economic and Revenue Forecast, with recovery from the recession expected to be slow, uneven and skewed heavily to the downside. Slow employment and wage growth, the prospect of a double-dip recession, a continued housing slump, and a possible credit crisis in Europe all pose potential downside risks to forecasted revenues.
 - State funding in the 2011-13 biennium is based on the \$5.7 billion K-12 budget signed by Governor Kitzhaber, including \$125 million to school districts for class size reduction and restoration of school days 2011-12, which is reduced by \$25 million in 2012-13.
 - Enrollment declines are anticipated throughout the forecast period and result in further reductions in State funding.
 - Local option revenue is projected to remain below \$10 million through 2013-14 as a result of continued weakness in the local real estate market.
 - Licensed staffing levels are reduced to track declining enrollment. However, additional staffing costs are included for the District’s potential Open Enrollment Policy and possible reductions in federal funding.
 - In 2012-13, employee salaries include the restoration of five furlough days and step movement on salary schedules. Benefits are increased by the Consumer Price Index (CPI) for U.S. Urban Consumers as projected in the December 2011 State Economic and Revenue Forecast. Beginning in 2013-14, compensation costs are forecast to grow by the rate of inflation, with staff reductions tracking enrollment declines.
 - PERS rates are expected to increase three percentage points in 2013-15 due to low PERS investment returns.
 - Transfers to equipment and capital funds are restored after being eliminated for four years as budget reduction strategies.
 - Reserves are forecasted at the board policy target of 5% of operating revenues and the operating contingency is forecasted at 2% of operating expenditures.

GENERAL FUND FORECAST

Summary Forecast

IMPACT ON OPERATIONS (in thousands)		2011-12	2012-13	2013-14	2014-15	2015-16
Total District Revenues	(1)	\$134,628	\$131,926	\$133,102	\$135,987	\$139,520
Expenditures						
Operating Expenditures	(2)	\$136,577	\$139,668	\$142,438	\$145,178	\$145,586
Transfers	(3)	\$759	3,538	3,605	3,688	3,773
Contingency	(4)	\$2,540	3,693	3,766	3,842	3,870
Subtotal		\$139,876	146,899	149,809	152,708	153,229
Projected Underspending	(5)	(1,659)	(2,193)	(2,236)	(2,279)	(2,286)
Total Expenditures		\$138,217	\$144,706	\$147,573	\$150,429	\$150,943
ANNUAL OPERATING DEFICIT		(3,589)	(\$12,781)	(\$14,471)	(\$14,442)	(\$11,423)
Use of Transfers from Reserves to Balance	(6)					
Transfer (to) / from General Fund Reserves		1,188	\$204	(\$59)	(\$144)	(\$177)
Transfer (to) / from Capital Equipment Fund		724				
Transfer (to) / from PERS Reserve		1,256	1,257			
Transfer (to) / from Insurance Reserve		266	118	118	118	118
Transfer (to) / from Capital Projects Fund Reserve		156	-			
Total Transfers (to) / from Reserves		3,589	\$1,579	\$59	(\$26)	(\$59)
Annual Deficit Assuming Use of Reserves over 5%	(7)	0	(\$11,202)	(\$14,412)	(\$14,468)	(\$11,482)
Corrective Action Required	(8)	\$0	(\$11,202)	(\$3,211)	(\$56)	\$2,987
RESERVES	(9)					
Beginning Fund Balance - General Fund		\$7,988	\$6,800	\$6,596	\$6,655	\$6,799
Transfer to / (from) Reserves		(1,188)	(204)	59	144	177
Ending Fund Balance - General Fund		\$6,800	\$6,596	\$6,655	\$6,799	\$6,976
% of Total Revenues		5.1%	5.0%	5.0%	5.0%	5.0%
Beginning Fund Balance - PERS Reserve	(10)	\$2,513	\$1,257	\$0	\$0	\$0
Transfer to / (from) Reserves		(1,256)	(1,257)	-	-	-
Ending Fund Balance - PERS Reserve		\$1,257	\$0	\$0	\$0	\$0
% Change in Revenues		-2.5%	-2.0%	0.9%	2.2%	2.6%
% Change in Expenditures		-4.6%	4.3%	2.0%	1.9%	0.3%

Note: Totals may differ due to rounding.

(1) Total revenues

- Reflect moderate economic growth with a slow to uneven recovery
- Include State funding for K-12 education of \$5.7 billion in the 2011-13 biennium, with funding reduced by \$25 million in 2012-13 with the expiration of one-time funding for class size reduction and the restoration of school days
- Track a decline in resident average daily membership (ADMr) of 531.1 over the forecast period (from 2012-13 to 2015-16), as State funding is allocated on a per pupil basis
- Include average tax growth of 3.0% per year over the forecast period
- Reflect further decreases in local option tax revenue in 2012-13 as the tax gap is squeezed by declines in real market property values (RMV) relative to AV growth
 - Expected to begin a slow recovery in 2013-14
- Include slow growth in interest earnings from prolonged low interest rates and reduced levels of reserves

(2) Operating expenditures

- Reflect the restoration of furlough days negotiated as budget reductions in 2011-12
- Include reductions for decreases in licensed staffing resulting from declining enrollment. Additional staffing costs are included for capacity to provide services to students in response to the District's potential Open Enrollment Policy and possible declines in federal grant funding
- Assume composite employer PERS rate of 19% for 2011-13 biennium, to increase by 3 percentage points in 2013-15 from the continued impact of PERS investment losses

(3) Transfers

- \$520,000 annually for capital projects that do not qualify for general obligation bond funding, increasing by the rate of the CPI
 - Eliminated 2008-09 through 2011-12; reinstated 2012-13
- \$1.7 million annually for equipment and textbooks, increasing by the rate of the CPI
 - \$500,000 for per pupil allocations to schools eliminated 2011-12, to resume 2012-13
 - \$1.2 million for district-wide critical equipment needs cut 2008-09 through 2011-12; reinstated 2012-13
- \$161,000 annually for bus fleet purchases, growing by the rate of the CPI
 - Eliminated 2008-09 through 2011-12; reinstated 2012-13
- \$599,000 to insurance reserves as negotiated in employee compensation contracts and to support risk management operations, with annual costs increasing by the rate of the CPI
 - \$224,000 in social security cost savings from pre-tax flexible spending accounts to insurance reserve accounts as negotiated with employee groups
 - \$375,000 to support Risk and Benefit Management operations, increasing by \$511,000 in 2012-13 due to the use of reserves

(4) Contingency

- 2.0% of operating expenditures per board policy
- Board Policy DI, Accounting and Financial Practices Policy 3: *"The targeted contingency for general fund is two percent of the operating budget."*
- Includes \$900,000 Special Education Contingency in 2012-13, with annual inflationary increases

(5) Projected Underspending

- Assumes a portion of budgeted expenditures will not be spent in any given year
- Anticipates 2012-13 underspending of \$2.2 million, representing 66% of general contingency plus 0.25% of other operating expenditures

(6) Use of Transfers from Reserves to Balance

- In all years of the forecast, funds must be restored to the general fund reserve in order to maintain the 5% board target
- \$1.257 million transferred from PERS reserve in 2012-13 to offset the impact of higher PERS rates imposed July 1, 2011
- \$118,000 from classified employee insurance reserves continue throughout forecast period to offset the costs of employee compensation, as agreed in employee group negotiations

(7) Annual Deficit Assuming Use of Reserves over 5%

- Difference between revenues and expenditures, net of transfers from reserves
- Projected financial shortfalls shown in brackets

(8) Corrective Action Required

- Board actions required to maintain a 5% ending fund balance in 2012-13, 2013-14 and 2014-15
- Amounts of annual deficits assume board action taken to address any previous year deficit

(9) General Fund Reserves or Ending Fund Balance

- Projected to be at 5% of operating revenue throughout the forecast period
- Board Policy DI, Accounting and Financial Practices Policy 4: *“The targeted floor for the ending fund balance will be at five percent of annual operating revenues. The annual financial forecast will project operating revenues and ending fund balance for the next five years.”*

(10) PERS Reserve

- Savings between budgeted and actual PERS rates in 2003-04 and 2004-05 retained to offset increase in PERS rates effective July 1, 2011

GENERAL FUND FORECAST

Revenue Detail

GENERAL FUND REVENUES (in thousands)		2011-12	2012-13	2013-14	2014-15	2015-16
Property Tax Collections - Current Year	(1)	\$53,219	\$54,638	\$56,293	\$58,110	\$59,974
Property Tax Collections - Prior Year	(2)	1,290	1,652	1,652	1,652	1,652
State School Fund Grants	(3)	63,582	59,918	58,837	58,475	57,735
SSF Local Revenues	(4)	2,823	2,654	2,575	2,524	2,475
Total SSF Formula Revenue		\$120,914	\$118,862	\$119,357	\$120,761	\$121,836
Local Option Levy - Current Year	(5)	9,731	9,017	9,498	10,979	13,437
Local Option Levy - Prior Year		267	352	352	352	352
Other Revenues	(6)	3,716	3,695	3,895	3,895	3,895
TOTAL DISTRICT REVENUES		\$134,628	\$131,926	\$133,102	\$135,987	\$139,520
STATE SCHOOL FUND (SSF) ALLOCATIONS						
Enrollment	(7)					
Enrollment(ADM) - Regular Ed.		15,322.1	15,008.0	14,779.9	14,558.7	14,394.5
Enrollment (ADM) - Charter Schools		614.2	669.0	720.2	751.4	751.4
Enrollment (ADM) - Alternative Ed. Programs		350.0	350.0	350.0	350.0	350.0
Total Enrollment (ADM)		16,286.3	16,027.0	15,850.1	15,660.1	15,495.9
Weighted ADM (ADMw) - Extended		19,427.7	19,120.4	18,816.0	18,608.3	18,385.2
State School Fund Grants	(3)					
SSF Grant per student (ADMw)		\$6,054	\$6,206	\$6,324	\$6,469	\$6,605
% Change in Revenues		3.3%	2.5%	1.9%	2.3%	2.1%
SSF Formula Revenue (in thousands)		117,615	118,661	118,992	120,377	121,434
School Year Subaccount		3,676				
High Cost Disability Grant		800	810	825	844	862
Net SSF Grants (in thousands)		\$120,914	\$118,862	\$119,357	\$120,761	\$121,836
PROPERTY TAX COLLECTION	(1)					
Assessed Value (AV) (in thousands)		\$12,059,996	\$12,361,496	\$12,682,895	\$13,038,016	\$13,429,157
Projected Annual Increase in AV		2.30%	2.50%	2.60%	2.80%	3.00%
Operating Levy (inside Measure 5 limit)	(1)					
Permanent Tax Rate per \$1,000 of AV	\$4.7485	\$57,267	\$58,699	\$60,225	\$61,911	\$63,768
Compression Loss		(801)	(880)	(813)	(743)	(638)
Taxes Imposed		56,466	57,818	59,412	61,168	63,131
Collection Rate - operating levy		94.25%	94.50%	94.75%	95.00%	95.00%
Net Operating Levy		\$53,219	\$54,638	\$56,293	\$58,110	\$59,974
Annual growth		1.8%	2.7%	3.0%	3.2%	3.2%
Local Option Levy (outside Measure 5 limit)						
Local Option Tax Rate per \$1,000 of AV	\$1.5000	\$18,322	\$18,542	\$19,024	\$19,557	\$20,144
Compression Loss		(8,025)	(9,000)	(9,000)	(8,000)	(6,000)
Tax Gap		10,297	9,542	10,024	11,557	14,144
<i>Measure 5 Limit - Proceeds Net of Uncollected Taxes</i>		9,731	9,017	9,498	10,979	13,437
<i>Limit of \$1,000 (increased by 3% per year) per Extended ADMw</i>		21,866	22,166	21,813	21,572	21,314
<i>Limit of 20% of State Resources</i>		23,683	23,894	23,963	24,244	24,459
Collection Rate - local option levy		94.50%	94.50%	94.75%	95.00%	95.00%
Net Local Option Levy		\$9,731	\$9,017	\$9,498	\$10,979	\$13,437
Annual growth		-13.3%	-7.3%	5.3%	15.6%	22.4%

(1) Property Tax Collections – Current Year

- Average tax growth of 3% per year over the forecast period based on slower than expected economic recovery
- Assessed property values (AV) projected to increase by 2.5% in 2012-13, 2.6% in 2013-14, 2.8% in 2014-15 and 3.0% in 2015-16, lower than the 3% required under Measure 50 because of limits due to real market values (RMV) caps
- Compression losses expected to grow to \$880,000 in 2012-13 before beginning a slow decline, assuming real market property values (RMV) will decline annually through January 2012 then resume growing at a more rapid rate than AV
- Tax collection rates projected to be 94.5% in 2012-13, increasing 0.25% in 2013-14 and 2014-15, and remaining constant at 95.0% in 2015-16
- Included in the State School Fund formula

(2) Property Tax Collections – Prior Year

- Estimated collection rate of 30% of the outstanding balance of uncollected taxes paid in years after they were levied
- Projected to remain constant over the forecast period
- Included in the State School Fund formula

(3) State School Fund (SSF) GrantsState School Fund Grant

Formula: Per Pupil Amount (SSF Grant per Pupil, adjusted for teacher experience and state funding ratio) X Enrollment (Extended ADMw) + Transportation Grant – SSF Local Revenues (Local Property Taxes, Federal Forest Fees, Common School Fund, County School Fund)

- Approximately 90% of District general fund revenues

- Assumes \$5.7 billion in state funding for K-12 schools in the 2011-13 biennium, including the \$125 million School Year Subaccount available to restore school days and reduce class size in 2011-12, and \$100 million in 2012-13
- 2011-13 biennial funding assumed to be distributed 50% in 2011-12 and 50% in 2012-13, with \$152 of the \$190 per ADMw in School Year Subaccount funding shifted to SSF formula funding in 2012-13
- Future increases in per pupil funding projected to grow by the rate of the Consumer Price Index (CPI) for US Urban Consumers, projected in the December 2010 State of Oregon Economic and Revenue Forecast
- Future growth in per pupil funding offset by projected decreases in enrollment over the life of the forecast. (See Note 7 below for additional detail)

High Cost Disability Grant

- Provided to partially offset the cost of educating students for whom costs exceed \$30,000 per year
- Revenue projection based on 2011-12 projection plus inflation at CPI

(4) SSF Local Revenues

- Includes Federal Forest Fees, Common School Funds, County School Funds
- Assumes extension of the Secure Rural Schools and Community Self-Determination Act and 5% annual reductions in Federal Forest Fees over the forecast period
 - Should Federal Forest Fees be discontinued, the loss of \$14 million in revenue statewide would represent approximately \$400,000 for the District
- Included in the State School Fund formula

(5) Local Option Levy

- Five-year property tax levy of \$1.50/\$1,000 AV to support general operations, renewed November 2008 and extending through 2014-15
- Projected to stabilize following decreases in 2011-12 as tax gap is squeezed by declines in real market property values (RMV) and slow growth in assessed values (AV)
- Compression losses expected to increase by another \$1.0 million to \$9.0 million in 2012-13 and remain at that level through 2013-14 before dropping in 2014-15 and 2015-16 from the slow recovery of the local real estate market
- Expected to remain substantially below statutory limits of \$1,000 per ADMw and 20% of state resources over the forecast period
- Not included in the State School Fund formula

(6) Other Revenues

- Not included in the State School Fund formula
- Includes interest earnings, tuition and fees
- Decrease in 2012-13 from removal of one-time revenue sources received in 2011-12
- Small increase projected in 2013-14, remaining flat thereafter.
- Future increases in interest earnings limited by slow growth of interest rates and low growth in reserve levels.
- Board Policy DI, Revenue Policy 1: *“The district will strive to establish a stable revenue base for the operating budget for program needs through cooperation with its associations, legislators, and other districts. The district will make capital funding requests periodically to assure adequate safety and preservation of school buildings, district equipment, and other*

capital assets.” 2. “The district may charge the service fees intended to recover the partial or full cost of non-district sponsored use of its facilities, services or equipment, if permitted by law...”

(7) Enrollment (ADM)

- Average Daily Membership – Year-to-date average of daily student enrollment
 - ADMr – Resident ADM
 - ADMw – ADM weighted to reflect the number students receiving English Language Learner (ELL) services, assigned Individualized Education Programs (IEPs), enrolled in Pregnant and Parenting programs, living in poverty, or in foster care
 - Extended ADMw – Greater of the current year or prior year ADMw, used to calculate State School Fund grant
- Assumes a decline of 531.1 ADMr, or 3%, over the forecast period, not including any potential impact from the anticipated Open Enrollment policy.
 - 613.5 ADMr decrease in regular district programs
 - 82.4 ADMr increase in charter school enrollment as existing charters reach their enrollment caps and Coburg Community Charter adds one grade to its enrollment
 - Alternative education enrollment projected to remain at the current level
- Assumes a decline of 735.2 extended ADMw, or 3.8%, over the forecast period

GENERAL FUND FORECAST

Expenditure Assumptions

<i>(in thousands)</i>		2011-12	2012-13	2013-14	2014-15	2015-16				
OPERATING EXPENDITURES										
Employee Compensation Expenditures (1)										
Licensed Employees		\$45,372	1.2%	\$45,920	0.9%	\$46,342	1.3%	\$46,958	1.4%	\$47,612
Licensed Employees - Open Enrollment Pool				800						
Licensed Employees - Fed. Funding Allowance				500						
Classified Employees		16,452	1.3%	16,606	1.9%	16,922	2.3%	17,311	2.3%	17,709
Admin/Supervisors		6,761	1.3%	7,042	1.9%	7,176	2.3%	7,341	2.3%	7,510
Substitute/Temporary		3,086	1.3%	2,860	1.9%	2,914	2.3%	2,981	2.3%	3,050
Staffing Pool			0.0%	255	0.0%	255	0.0%	255	0.0%	255
Total Salaries		\$71,671	3.2%	\$73,983	-0.5%	\$73,608	1.7%	\$74,846	1.7%	\$76,136
Payroll Costs as % of Salary										
Licensed	33.90%	\$15,381		\$16,008		\$17,189		\$17,417		\$16,229
Classified	35.69%	5,861		5,926		6,595		6,746		6,368
Administrative	33.90%	2,292		2,387		2,648		2,709		2,546
Substitute/Temporary	15.48%	549		443		538		551		472
Insurance Benefits		18,868	0.5%	18,966	1.3%	19,214	1.7%	19,545	1.7%	19,875
District Retirement Benefits		2,500	0.0%	2,500	0.0%	2,500	0.0%	2,500	0.0%	2,500
Other Benefits		1,426	0.0%	1,426	3.5%	1,476	3.8%	1,533	3.7%	1,590
Total Benefits		46,877	1.7%	47,655	5.3%	50,161	1.7%	50,999	-2.8%	49,581
Total Employee Compensation		\$118,548	2.6%	\$121,638	1.8%	\$123,769	1.7%	\$125,845	-0.1%	\$125,716
Non-Compensation Expenditures (2)										
Purchased Services		\$10,372	1.3%	\$10,264	1.9%	\$10,459	2.3%	\$10,699	2.3%	\$10,945
Charter School Payments		3,374	5.9%	3,572	10.2%	3,937	8.2%	4,262	4.4%	4,452
Supplies		3,464	1.3%	3,365	1.9%	3,429	2.3%	3,508	2.3%	3,588
Equipment		57	1.3%	56	1.9%	57	2.3%	58	2.3%	60
Other		763	1.3%	773	1.9%	788	2.3%	806	2.3%	824
Total Non-Compensation Expenditures		18,030	0.0%	18,029	3.6%	18,669	3.6%	19,333	2.8%	19,869
TOTAL OPERATING EXPENDITURES		\$136,577	2.3%	\$139,668	2.0%	\$142,438	1.9%	\$145,178	0.3%	\$145,586
Transfers (3)										
Capital (Non-bondable projects)		0	1.3%	\$520	1.9%	\$530	2.3%	\$542	2.3%	\$555
Equipment		0	1.3%	1,739	1.9%	1,772	2.3%	1,813	2.3%	1,854
Transportation		0	1.3%	161	1.9%	164	2.3%	168	2.3%	172
Insurance Reserve		599	1.3%	1,118	1.9%	1,139	2.3%	1,165	2.3%	1,192
Nutrition Services		160								
Total Transfers		759		3,538		3,605		3,688		3,773
Contingency (4)										
Contingency - Special Ed.		2,206		2,793		2,849		2,904		2,912
Contingency - Special Ed.		334	1.3%	900	1.9%	917	2.3%	938	2.1%	958
TOTAL EXPENDITURES		\$139,876	5.0%	\$146,898	2.0%	\$149,809	1.9%	\$152,708	0.3%	\$153,228
Note: Totals may differ due to rounding.										
<i>CPI (U.S. Urban Consumers), December 2011</i>		<i>3.0%</i>		<i>1.3%</i>		<i>1.9%</i>		<i>2.3%</i>		<i>2.1%</i>

(1) Salaries and Benefits ExpendituresSalaries

For 2012-13,

- 2011-12 furlough days restored in 2012-13
 - Five days for licensed, classified, and administrative staff
 - Six days for administrative leadership
- Include cost of step movement for eligible employees
- Reduced by 19.2 FTE licensed staff to track decreasing enrollment
- Include an Open Enrollment Pool to fund up to 14.0 FTE licensed staff to support additional students under a potential Open Enrollment Policy
- Include a Federal Funding Allowance equivalent to the salaries of 7.5 FTE licensed staff to protect against possible additional reductions in federal grant revenue currently supporting services to high needs students

For 2013-14 through 2015-16,

- Increased annually by U.S. CPI for Urban Consumers, as projected in the December 2011 State Economic and Revenue Forecast for all employee groups, as all employee agreements expire in 2012
 - 1.9% in 2013-14
 - 2.3% in 2014-15
 - 2.1% in 2015-16
- Licensed salaries reduced by an additional 20.9 FTE beginning in 2013-14 to track enrollment declines
 - 2013-14 7.8 FTE reduction
 - 2014-15 7.6 FTE reduction
 - 2015-16 5.5 FTE reduction

- Any shifts from regular education programs to current charter schools are incorporated into district enrollment projections; any future increases would come from existing programs and result in further staff reductions

Benefits

- Payroll costs calculated as a percentage of salary, health insurance and other benefits
 - Insurance increase based on 1.3% CPI for 2012-13
- Composite PERS rate of 19% for 2011-13
 - Projected to increase 3 percentage points beginning July 1, 2013 reflecting the continued impact of PERS investment losses
 - Does not include 6 percent PERS pick-up paid by the District
- Annual support for district early retirement benefits projected at \$2.5 million
- Board Policy DI, Organizational Policy 3: *“The compensation of employees will be competitive with that of comparable public and private sector employers in the relevant recruiting or market area. The criteria for reviewing employee wages and benefits will also include internal comparability for similar jobs, ability to pay and relevant federal or state requirements.”*

(2) Other Operating Expenditures

- 2011-12 baseline increases include additional purchased services costs of \$155,000 to reflect higher student transportation costs associated with increased fuel rates and the addition of bus routes in response to the closure of four elementary schools in 2011-12.
- Charter school payments represent the pass-through of state funding (80% or more of state funding received) and local option revenue on a per pupil basis

- Board Policy DI, Organizational Policy 4: *“The district will, within available resources, maintain the productivity of staff through a supportive working environment which includes appropriate equipment, supplies, materials, and professional staff development.”*

(3) Transfers

- Capital projects - \$520,000 annually for capital projects that do not qualify for bond funding and athletic field improvements
 - Eliminated in 2008-09 through 2011-12
 - Reinstated 2012-13, increasing by the rate of the CPI in future years
- Equipment - \$1.7 million annually for equipment and textbooks that do not qualify for bond funding
 - \$500,000 (plus inflation) for per pupil allocations to schools for books and equipment eliminated in 2011-12 and reinstated in 2012-13
 - \$1.2 million for equipment eliminated in 2008-09 through 2011-12; reinstated in 2012-13, increasing by the rate of the CPI in future years
- Transportation fleet replacement - \$161,000 annually for bus fleet purchases
 - Eliminated 2008-09 through 2011-12
 - Reinstated 2012-13, increasing by the rate of the CPI

- Insurance Reserve
 - \$224,000 (plus inflation) in social security cost savings from pre-tax flexible spending accounts to insurance reserve accounts, as negotiated with employee groups
 - \$375,000 (plus inflation) to support Risk and Benefit Management operations, increasing by \$511,000 in 2012-13 due to draw down of reserves
- Nutrition Services Fund
 - Annual supplements to help pay for negotiated increases in employee compensation eliminated as of 2012-13 assuming breakeven the Nutrition Services program breaks even

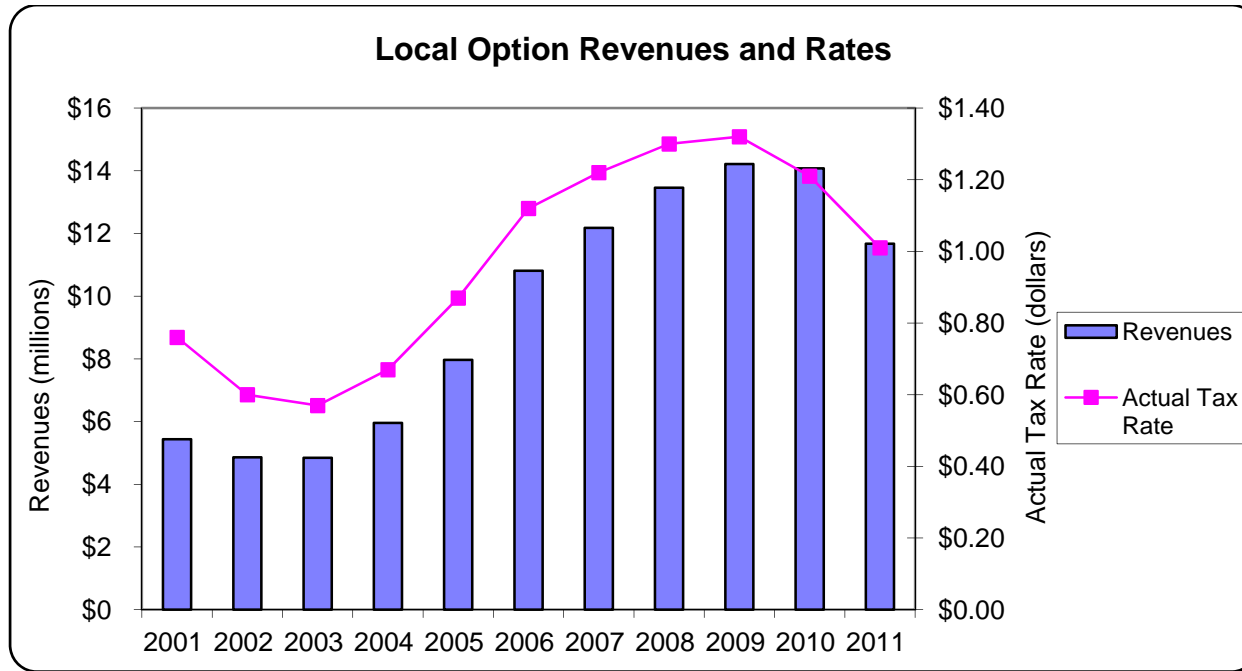
(4) Contingency

- General contingency maintained at 2% of operating expenditures (excluding transfers)
- Board Policy DI, Accounting and Financial Practices Policy 3: *“The targeted contingency for the general fund is two percent of the operating budget.”*
- Includes \$900,000 Special Education Contingency in 2012-13, with annual inflationary increases

SERVICE ADDITIONS/ENROLLMENT ADJUSTMENTS		
Adjustments Related to Enrollment	\$	FTE
Staff reductions related to decline in enrollment (8.5 FTE licensed)	(779,000)	(8.50)
Subtotal—Adjustments Related to Enrollment	(779,000)	(8.50)
Ongoing Staffing Additions Converted from Discretionary Funding		
Licensed Staffing to support secondary math interventions and elem./middle counseling	714,000	7.80
Classified staffing to support district-wide school programs	66,000	1.35
Subtotal—Staffing Converted from Discretionary Funding	780,000	9.15
BUDGET REDUCTIONS		
Ongoing Strategies	\$	FTE
<u>Licensed Staffing (school based):</u> Increase student to teacher ratio by 3.0	(5,853,000)	(63.90)
<u>Classified Staffing (school based):</u> Reduce building classified staff by 10%	(792,000)	(14.19)
Reduce custodial staff by 10%	(502,000)	(9.00)
<u>Administrator staffing (school based):</u> Reduce building principals (.5 FTE North High School, .5 FTE Spencer Butte, .5 FTE Twin Oaks)	(213,000)	(1.50)
<u>School Consolidations</u> Eliminate principal positions	(362,000)	(2.55)
Eliminate custodial/secretary positions	(459,000)	(8.22)
Reduce utility costs	(120,000)	
<u>Athletics and Extra-curricular Activities</u> Eliminate speech/debate, 9th grade and JV baseball and softball, reduce coaching positions	(277,000)	
Increase participation fees	(162,000)	

BUDGET REDUCTIONS (continued)		
Ongoing Strategies	\$	FTE
<i>Central Office and Administration (10% staff reductions and 20% materials/services):</i>		
Community and Intergovernmental Relations - materials and services, classified FTE	(77,000)	(1.00)
Computing and Information Services - materials and services, 1.0 professional FTE, 1.0 classified FTE	(231,000)	(1.94)
Education Support Services - materials and services, .37 administrator FTE, 2.77 licensed FTE, 5.88 classified FTE	(702,000)	(9.02)
Executive Administration - materials and services	(24,000)	
Facilities Management - materials and services, classified FTE	(622,000)	(5.00)
Finance and Support Services - materials and services, .35 administrator/professional FTE, 1.85 classified FTE	(159,000)	(2.20)
Human Resources - materials and services, .45 professional FTE, .83 classified FTE	(115,000)	(1.28)
Instruction - materials and services, 1.1 administrator/professional FTE, 2.8 FTE licensed, 2.13 classified FTE	(645,000)	(6.03)
Transportation -one bus route due to reduced ridership, materials and classified FTE	(88,000)	(0.54)
Reduction in materials and services, reallocation of targeted funding to staffing - Schools	(870,000)	
<i>Additional Strategies Not Finalized</i>		
Further staffing reductions and/or employee compensation adjustments	(4,500,000)	
Subtotal—On-going Reductions	(16,773,000)	(126.37)
Short-term Reserve Strategies	\$	FTE
Draw down reserves to 4% of operating revenues	(1,345,000)	
Eliminate transfer to equipment funds for textbooks and equipment needs (third year)	(1,706,000)	
Eliminate transfer to fleet and equipment fund for bus purchases (third year)	(158,000)	
Eliminate transfer to capital fund (third year)	(520,000)	
Use PERS reserve funds to partially offset PERS rate increase of 6.3%	(1,257,000)	
Subtotal—Short term Reductions	(4,986,000)	0.00
ADJUSTMENTS RELATED TO BOND MEASURE APPROVAL		
\$1 Million Shift to Bond Fund	\$	FTE
Facilities Management - materials and services, 11.0 classified FTE	(1,000,000)	(11.00)
<u>Service Add-backs</u>		
Appropriations to be determined via supplemental budget	800,000	
Classroom Support	100,000	
Finance and Support Services - materials and services, .25 professional FTE	50,000	0.25
Human Resources - materials and services	50,000	
Subtotal—Adjustments Related to Bond Measure Approval	0	(10.75)
TOTAL PROPOSED SERVICE LEVEL CHANGES/BUDGET REDUCTIONS	(21,758,000)	(136.47)

STATISTICAL INFORMATION



In May 2000, district voters approved a five-year local option levy of \$1.50 / \$1,000 of Assessed Value. Since the passage of Measure 5 in 1990, this was the first opportunity for district voters to increase school operating funds above the state funding formula. Voters renewed the local option for another five years in November 2004 and again in 2008.

The stability of this revenue source is largely dependent on the real market value of each property in the district increasing by at least the same rate as the assessed value (which is limited to a 3% increase per year up to the real market value). In a slower economy, real market value may increase at a slower rate than assessed value or fall. This condition is evident in 2010 and 2011 as tax revenues have fallen from a high of \$14.2 million in 2008 to \$11.7 million in 2011.

When the gap between real market value and assessed value is not sufficient to generate the full \$1.50 tax rate, a property is said to be “in compression” and the taxes paid are only a part of the tax rate imposed. On one end, if assessed value and real market value is the same for a particular property, no taxes are due. On the other end, if the assessed value is well below the real market value, the full \$1.50 rate is due. Most taxpayers are paying less than the full rate. Since 2001 the average “actual rate” received by the district has been as low as \$0.57 in 2003 and as high as \$1.32 in 2009. The falling real market values in 2010 and 2011 drove this actual rate back down to \$1.01 in 2011.

The local option calculation requires that compression be calculated for each property separately and is therefore difficult to predict the effect of compression on district revenue.

STUDENT AVERAGE DAILY MEMBERSHIP BY LEVEL

(Projections are in **Bold**)

Level	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	11-12	12-13	13-14	14-15	15-16
K-5	7,042	7,150	7,049	7,071	7,080	7,078	6,968	6,843	6,726	6,694	6,655	6,623
6-8	4,374	4,228	4,097	4,000	4,014	3,908	3,917	3,932	4,024	3,934	3,844	3,697
9-12	<u>6,154</u>	<u>6,185</u>	<u>6,142</u>	<u>5,927</u>	<u>5,719</u>	<u>5,720</u>	<u>5,670</u>	5,511	5,277	5,222	5,160	5,176
	17,570	17,563	17,288	16,998	16,813	16,706	16,555	16,286	16,027	15,850	15,660	15,496

Student enrollment is expressed as average daily resident membership (ADMr). It represents the average annual enrollment as of June 30 and counts kindergarten students at 0.5 ADMr or half time. The state uses ADMr as the basis for allocating funds under the State School Fund formula and provides additional weighting (ADMw) for special education, poverty, English Language Learners (ELL), and pregnant and parenting students. The district also receives funding for students placed in alternative education programs or enrolled in district-sponsored charter schools. The ADMr shown above includes students enrolled in all schools including charter schools and alternative education programs.

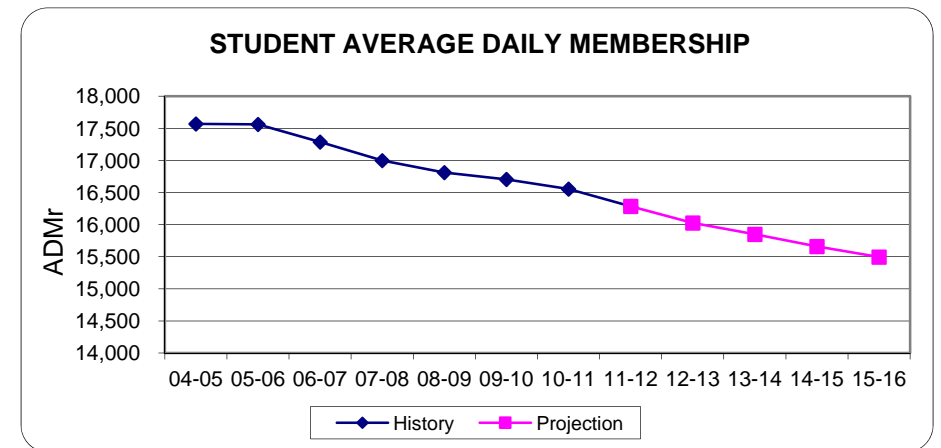
The table shows a history of changes in student ADMr over the past seven years and provides a forecast for the next five years. Student enrollment reached its highest point in the mid-1970's at approximately 22,000 students and declined to a low of 16,636 in 1984-85 before expanding again. During this period the district reduced staff and closed several elementary schools. Between 1985 and 1993, enrollment increased and two elementary schools were reopened. Total enrollment has consistently declined since 2002-03 when ADMr peaked at 17,979.

In 2010-11, district enrollment dropped below the 1984-85 level and the district closed four elementary schools due to excess building capacity district-wide and as a response to financial deficits. These closures bring the total number of elementary school closures to eight since 1999-00.

ADMr has declined an average of 200 students in the last five years and the forecast projects continued declines in ADMr. The sharp decline of 269 ADMr expected this year is likely to repeat in 2012-13 before returning to a

more modest rate of decline during the forecast period. Enrollment is projected to decline another 531 during the next four years with an average loss of 133 students per year.

In the recent *Shaping 4J's Future* strategic planning process, the board adopted strategies to address issues resulting from declining student enrollment and a student population with a wider range of learning needs. Decisions to 1) allocate more teachers and staff to schools serving students with the greatest needs, 2) limit transfers at middle and high schools to better balance school size and program offerings, 3) consider school boundary adjustments, and 4) consider expanding transportation options within each region, will direct future staffing, transportation and facilities planning.



STATISTICAL INFORMATION

Ending Fund Balance

The following graph shows historical and projected ending fund balances in the general fund, representing cash reserves remaining at the end of the fiscal year. Balances reflect additional revenues collected during the year, unexpended budget appropriations, and planned savings held in the unappropriated ending fund balance (UEFB).

Board Policy DI, Accounting and Financial Policy 4. states: *"The district will maintain an ending fund balance in the general fund, in order to provide stable services and employment to offset cyclical variations in revenues and expenditures. The targeted floor for the ending fund balance will be at five percent of annual operating revenues. The annual financial forecast will project operating revenues and ending fund balance for the next five years. The board will allocate an unappropriated ending fund balance (UEFB) in the annual budget, taking into consideration revenue and expenditure volatility and other district needs."*

The UEFB may not be spent or appropriated during the fiscal year in which it is budgeted. Once the targeted five percent for the ending fund balance has been achieved, the superintendent will advise the Board if at any time the ending fund balance falls below or is projected to fall below that amount. The superintendent will update the board on the financial condition of the district and present financial options for board consideration."

Following years of budget reductions under Measure 5, reserves were built up to offset the impact of budget shortfalls beginning in 1997. Reserves were bolstered with one-time actions again in 2002 to counter the effects of lower state funding in 2003.

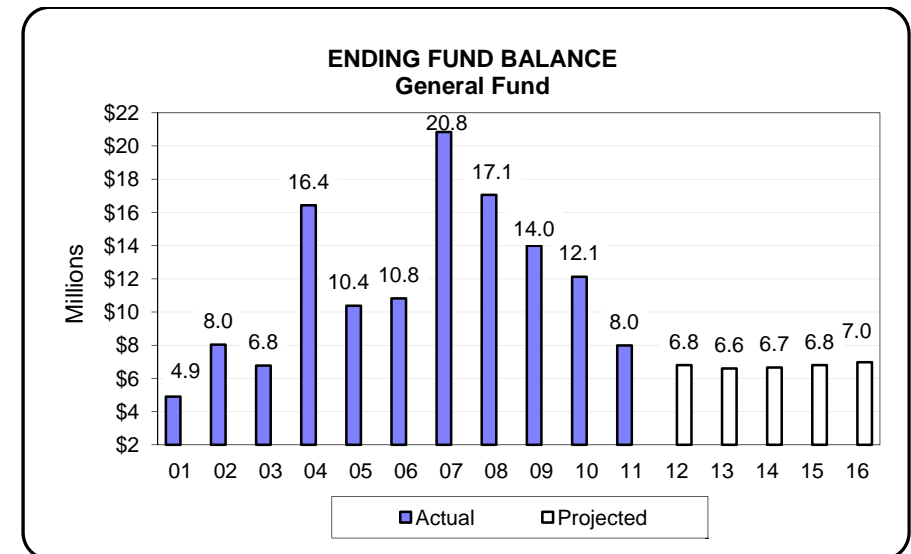
The \$5.2 billion K-12 budget approved for the 2003-05 biennium was reduced to \$4.9 billion in 2004 with the failure of Measure 30. Per pupil funding declined substantially and required the carry-over of reserves to maintain stable programs in 2004-05. The district reduced its state funding accrual by \$2.1 million in 2004-05.

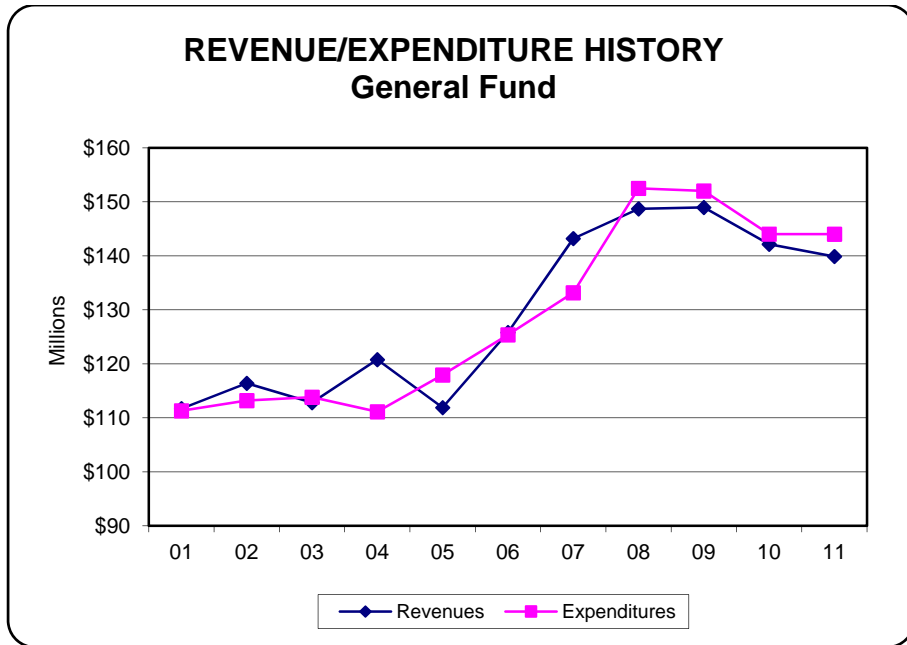
The 2005 legislature adopted a \$5.24 billion K-12 budget plus \$23 million if state revenues exceeded projections. Along with higher local property taxes, this resulted in an unexpected boost to district revenues and reserves in 2005-06 and 2006-07.

The 2007 legislature adopted a \$5.985 billion K-12 budget plus another \$260 million for a noncompetitive School Improvement Fund grant available for certain expenditures aimed at increasing student achievement. The combined \$6.245 billion was \$940 million over the previous biennium or 17.7%. During November 2008, in light of falling state revenues, the Governor called for a 1.2% reduction in 2007-09 school funding. This resulted in a \$2.1 million cut to district revenues.

For the 2011-13 biennium, the State approved \$5.7 billion to fund K-12 schools. The total included \$125 million in School Year Subaccount funds for lowering class sizes and increasing the number of school days.

Reserves have been used to support operations since 2007-08. Reserves are projected to be 5.1% in 2011-12 and forecast at 5% in future years.

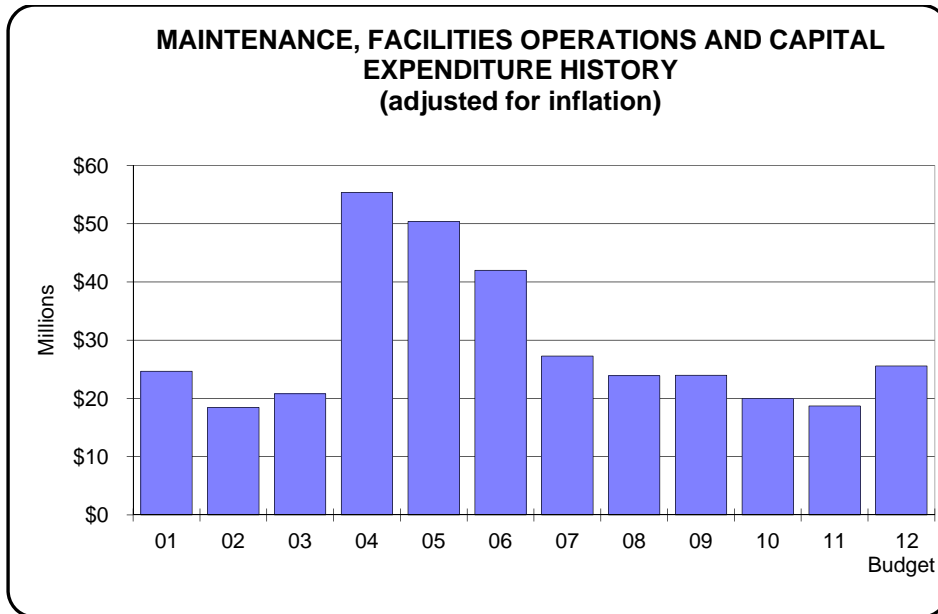




Significant Revenue/Expenditure Variables

- 2000-01 Break-even operations with passage of local option levy.
- 2001-02 One-time reductions in expenditures created savings needed to offset future reductions in state funding.
- 2002-03 State revenue shortfalls addressed in five special sessions and the failure of a state income tax measure resulted in major cuts to K-12 funding. Revenue includes \$6.3 million in state funding received in July 2004, as permitted by the legislature.
- 2003-04 State funding was approved a higher level than budgeted by 4J. PERS rates declined but costs were held to budgeted levels because of uncertainty around state funding and PERS rates. Expenditures include a \$4 million PERS reserve.
- 2004-05 Revenues dropped sharply from the failure of Measure 30 and the resulting cut to state funding. Expenditures include a \$4.5 million transfer to PERS reserves and use \$6.0 million in general fund reserves to support operations.

- 2005-06 A strong economy generated higher levels of state funding and local option income. Costs were increased to reflect higher health insurance costs and PERS rates, additional special ed. staff, and 1-time funding to stabilize neighborhood schools and strengthen the school choice system. \$2.3 million in general fund reserves and \$3 million in PERS reserves were used to support operations.
- 2006-07 State funding was bolstered by “trigger revenue” and 1-time lottery funds. Local option revenue exceeded projections. Costs included continued efforts to stabilize neighborhood schools and 1-time initiatives to increase student achievement. PERS reserves of \$3 million were used to support operating costs. Another \$3 million was held in reserve to fund services when the City levy expired at the end of 2006-07.
- 2007-08 A strong economy once again generated higher levels of state and local revenues. Costs were increased due to the on-load of City Levy funded services and the addition of ongoing and one-time investments in the classroom.
- 2008-09 State funding was decreased in response to the global economic crisis, with district revenues cut almost \$2 million. Further reductions were offset by the use of federal State Fiscal Stabilization Fund dollars. District spending was reduced by \$4.3 million.
- 2009-10 Unprecedented uncertainty and a continued global economic crisis resulted in \$11.7 million in budget reductions. Further cuts were avoided with funding provided under the American Recovery and Reinvestment Act (ARRA) as well as state funding from the Education Stability Fund and Rainy Day Fund.
- 2010-11 With renewal of the district’s local option levy, passage of statewide tax initiatives, the Legislature’s approval of \$200 million in K-12 funding from state reserves, and additional ARRA funding, budget reductions were minimized at \$7.2 million.



Expenditure totals include general fund expenditures for repairs, maintenance, capital improvements, and building operations plus capital expenditures paid for from the capital projects fund. Actual dollar expenditures have been adjusted for inflation (U.S. CPI-Urban Consumers) to reflect a real dollar comparison in 2009 dollars.

1992 - 97 Capital Improvement Plan (CIP)

In November 1992, voters approved a \$74.3 million general obligation bond levy to fund the district's first major capital improvement program since the late 1970's. Proceeds were used to finance major capital construction and repairs, equipment and textbooks, and to refinance certificates of participation issued in 1990 for capital projects. Bonds were originally issued in 1993 and 1994, with all bonds to be repaid by 2014. Portions of each series were refinanced in 2002 to achieve savings for taxpayers.

1995 - 98 Capital Repair Bond

In November 1994, voters approved \$6 million in general obligation bonds to provide \$2 million per year for three years for routine facilities repairs and improvements. Bonds have been repaid and

these maintenance and repair costs are now being paid out of the General Fund.

1998 - 2001 Capital Needs Levy

In November 1998, voters approved a \$12.2 million bond levy to pay for \$8.7 million in critical capital needs and security upgrades as well as \$3.5 million to construct athletic fields for high school football and other youth sports activities. Bonds were issued in June 1999 and February 2000, and will be repaid over 20 years.

From 1997 to 2003, capital and equipment costs were also funded with lottery bond and classroom needs grant proceeds provided by the state. Additional district sources include unspent general fund balances carried over by schools and departments for future year expenditures. Equipment and textbook costs, which can no longer be funded with bond proceeds and for which one-time sources have been expended, are now being funded with transfers from the general fund to the fleet and equipment fund.

2002 - 2008 Capital Improvement Program

In May 2002, voters approved \$116 million in bonds to fund a six-year capital improvement plan. Spending in 2002-03 represented the first year of design and construction activity under that bond. Higher levels of spending in 2003-04 through 2005-06 primarily reflect the construction of two new elementary schools to replace four former elementary schools (opened in September 2004), the construction of two new middle schools (opened September 2005 and September 2006), and remodels in all four high schools. Amounts expended in 2006-07 include the final costs of constructing one new middle school, major remodeling at an elementary school and another middle school, plus upgrades to building systems such as electrical, heating and ventilation, and plumbing systems district-wide. Of the total bonds authorized, \$70 million was issued in November 2002 and the remaining \$46 million was issued August 2005. Bonds are scheduled to be repaid by 2025.

2011 Capital Improvement Program

In May 2011, district voters approved a \$70 million general obligation bond, funding the second phase of the district's Long-Range Facilities Plan. Also an element of the board's sustainable budget strategy, the

bond will provide immediate relief to the general fund and take pressure off of limited capital reserves. Bond proceeds will be used to provide better instructional facilities for students and fund \$1 million of annual building repairs which have been paid for from the general fund. Capital improvements budgeted for 2011-12 include the

replacement of roofs and synthetic athletic fields, improvements to instructional spaces and remodeling needed in response to school closures and consolidations, and upgrades to technology and building systems.








The Open Book\$ project was created to explain information about Oregon K-12 school spending in a simple, easy-to-understand format. Information is available on individual district spending, comparable districts spending and statewide averages.

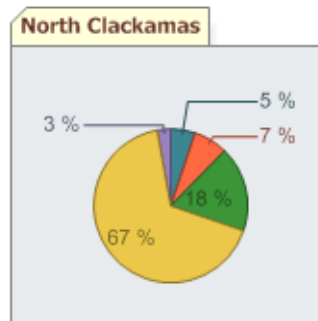
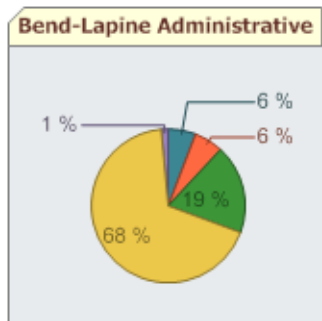
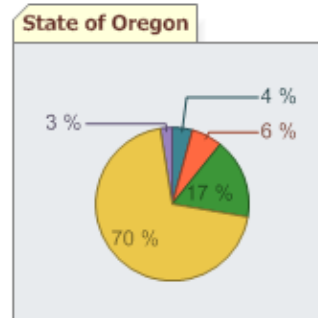
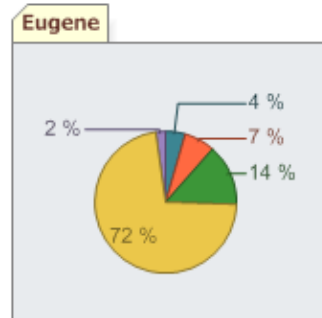
Open Book\$, in an effort to provide information that is easy to understand, uses the five expenditure categories listed to the right.

The chart below compares Eugene’s 2009-10 spending in the five categories with the state average and the two districts closest in size to that of Eugene: North Clackamas and Bend-LaPine.

District Comparisons

YOU ARE COMPARING:

-  Principal’s Office
-  Business Services & Technology
-  Teaching & Student Resources
-  Central Administration
-  Buses, Buildings & Food
-  Compare other school districts
-  Look at other achievement data



Open Book\$ Icons & Definitions



Teaching and Student Resources

Teachers, instructional assistants, special education, speech pathologists, attendance officers, school nurses, library services, counseling, community services, supplies, textbooks and equipment.



Principal's Office

Principals, vice-principals, secretaries, and the supplies and equipment they use to perform their jobs.



Buses, Buildings and Food

Student transportation, building maintenance, heat, light, custodians, cafeteria.



Business Services and Technology

Information technology, personnel, curriculum research and evaluation, printing educational materials.

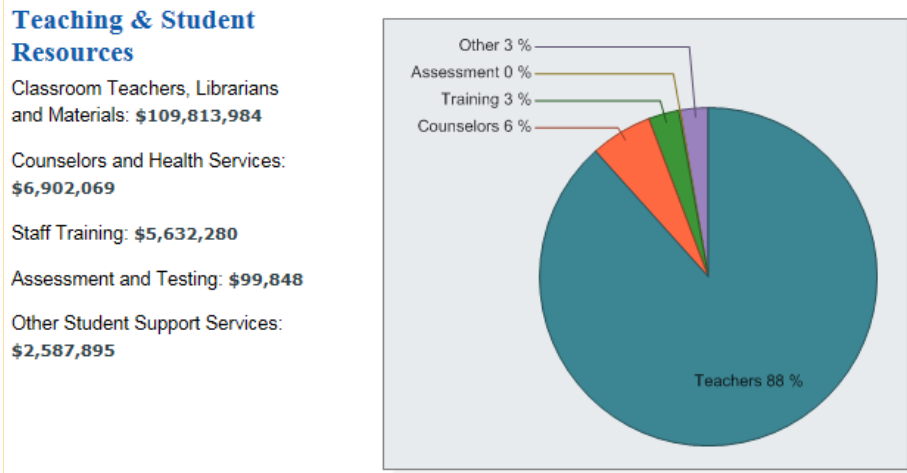


Central Administration

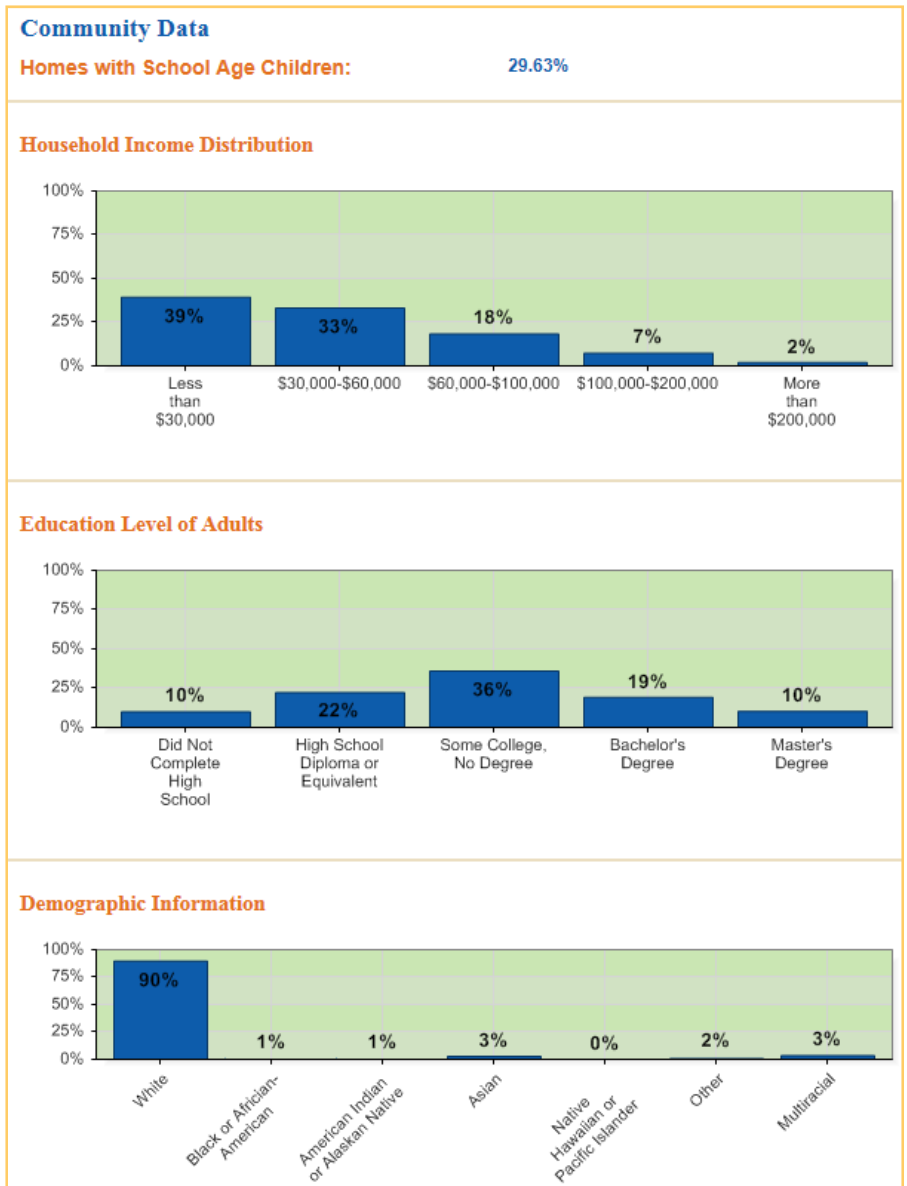
Staff salaries, benefits and supplies in the superintendent's office, or for other education leaders not located at specific schools.

For more information visit the Open Books website: www.openbooksproject.org.

Breaking down the largest spending category, Teaching and Student Resources, shown in the chart below, the district is in line with statewide averages spending 88% on classroom teachers, 6% on counselors, and 3% on staff training.



The charts on the right display select community data regarding household income, education level, and demographics. Generally, household income in Eugene is slightly higher than statewide averages. Eugene ranks 1% higher in both the \$100,000 to \$200,000 and \$200,000+ categories at 7% and 2% respectively. Eugene residents have also achieved higher education levels when compared to the rest of the state. With 10% of residents having a Master's Degree or better, this is double the state average of 5%. Percentages for other statewide numbers include 17% not completing high school, 31% having a high school diploma, 33% having some college, and 12% having a bachelor's degree. Demographic data is in line with statewide averages.



Data from the 2000 US Census.

**EXCERPTS FROM
THE STATE OF OREGON
ECONOMIC AND REVENUE FORECAST SUMMARY
May 2011**

Oregon Economic Forecast

Oregon's economic expansion has been put at risk by external factors – most notably the sovereign debt crisis and unfolding recession in Europe. Although the outlook is uncertain, the local recovery is playing out according to script so far. Oregon is growing, due in large part to healthy gains in business investment and exports. Even so, the economic expansion continues to be a disappointing one by historical standards. Spending and hiring will remain constrained for some time as households repair their balance sheets and governments make do with fewer resources.

Taken as a whole, the labor market is slowly returning to health, although many of Oregon's rural communities and low-income households have yet to share in the fruit of the economic recovery. Gradual improvement has persisted across a laundry list of labor market indicators (including the rate of hiring, hours worked per employee, claims for unemployment insurance, layoff announcements, labor force participation, the duration of unemployment and the number of help wanted listings).

If Europe's banking problems remain primarily a regional issue and do not short circuit the global flow of credit, Oregon's expansion, such as it is, can be expected to persist. Being home to a relatively small banking industry, and having few direct trade links with Europe, Oregon's economy has relatively little exposure to Europe's woes. Even so, given Europe's size and the depth of its financial problems, the threat of a renewed global recession is uncomfortably high.

Although the bulk of the current economic data points toward continued growth, the downside risks are not only mounting but coming more into focus. Most U.S. forecasters place the probability of a near term U.S. recession at or near 40 percent; with a slow and uneven recovery still being the base case. Similarly, the Office of Economic Analysis is not forecasting a recession for the Oregon economy. Nevertheless, contingency planning remains a must.

Recent Trends

Employment in Oregon in both the second and third quarters was essentially flat following a very strong start to 2011. The recent weakness can largely be attributed to public sector cuts as the private sector continues to add jobs. Overall, job growth is up 1.5 percent on the year, which ranks 13th across states.

After a rocky start in the first quarter of 2010, the private sector has added jobs each of the past six quarters, for a total increase of 36,900, or 2.8 percent. In the third quarter there were notable job increases reported in construction, computer and electronic products, information, education and health services and leisure and hospitality services. Some of the weakest private sector industries were natural resources and mining, wood products, transportation equipment, food processing and retail trade. Budget shortfalls have caught up with the public sector, with declines in all three government levels, notably local education.

Even with mounting concerns abroad (e.g. European debt issues and Chinese inflation), the U.S. economy continues to chug along, leading to more demand for Oregon's firms. As expected, investment and exports are leading the statewide expansion. Encouragingly, consumer spending remains stubbornly strong and the public sector drag has decreased the past two quarters. Nevertheless, overall employment growth remains slow, with governments and housing-related industries unlikely to add a significant number of workers any time soon.

OEA forecasts an employment increase of 0.6 percent in the fourth quarter of 2011 and 1.4 percent in the first quarter of 2012. Job gains will remain subdued in 2012, improving at a 1.3 percent pace, following 1.5 percent gains in 2011.

Demographic Forecast

Oregon's population count on April 1, 2010 was 3,831,074. Oregon gained 409,550 persons between the years 2000 and 2010. The population growth during the decade of 2000 and 2010 was 12.0 percent, down from 20.4 percent growth from the previous decade.

Oregon's rankings in terms of decennial growth rate dropped from 11th between 1990-2000 to 18th between 2000-2010. Slow population growth during the most recent decade due to double recessions probably cost Oregon one additional seat in the U.S. House of Representatives. Actually, Oregon's decennial population growth rate during the most recent decade was the second lowest since 1900. The slowest was during the 1980 when Oregon was hit hard by another recession. As a result of recent economic downturn and sluggish recovery, Oregon's population is expected to continue a slow pace of growth in the near future. Based on the current forecast, Oregon's population will reach 4.27 million in the year 2020 with an annual rate of growth of 1.1 percent between 2010 and 2020.

Oregon's economic condition heavily influences the state's population growth. Its economy determines the ability to retain local work force as well as attract job seekers from national and international labor market. As Oregon's total fertility rate remains below the replacement level and deaths continue to rise due to ageing population, long-term growth comes mainly from net in-migration. Working-age adults come to Oregon as long as we have favorable economic and employment environments. During the 1980s, which included a major recession and a net loss of population, net migration contributed to 22 percent of the population change. On the other extreme, net migration accounted for 73 percent of the population change during the booming economy of 1990s. This share of migration to population change declined to 56 percent in 2002 and it was further down to 32 percent in 2010. As a sign of slow to modest economic gain, the ratio of net migration-to-population change will increase gradually and will reach 70 percent by the end of the forecast horizon. Although economy and employment situation in Oregon look stagnant at this time, migration situation is not expected to replicate the early 1980s pattern of negative net migration. Potential Oregon out-migrants have no better place to go since other states are also in the same boat in terms of economy and employment.

Age structure and its change affect employment, state revenue, and expenditure. Demographics are the major budget drivers, which are modified by policy choices on service delivery. Growth in many age groups will show the effects of the baby-boom and their echo

generations during the period of 2010-2020. It will also reflect demographics impacted by the depression era birth cohort combined with diminished migration of the working age population and elderly retirees.

After a period of slow growth during the 1990s and early 2000s, the elderly population (65+) has picked up a faster pace of growth and will surge as the baby-boom generation continue to enter this age group. The average annual growth of the elderly population will be 3.9 percent during the forecast period as the boomers continue to enter retirement age. However, the youngest elderly (aged 65-74) will grow at an extremely fast pace during the forecast period, averaging 4.9 percent annual rate of growth due to the direct impact of the baby-boom generation entering retirement age. Reversing several years of shrinking population, the elderly aged 75-84 will start a positive growth as the effect of depression era birth-cohort will dissipate. A faster pace of growth of population in this age group will begin once the baby-boom generation starts to mature. The oldest elderly (aged 85+) will continue to grow at a moderately but steady rate due to the combination of cohort change, continued positive net migration, and improving longevity. The average annual rate of growth for this oldest elderly over the forecast horizon will be 1.6 percent,

As the baby-boom generation matures out of oldest working-age cohort combined with slowing net migration, the once fast-paced growth of population aged 45-64 will gradually taper off to below zero percent rate by 2012 and will remain at slow or below zero growth phase for several years. The size of this older working-age population will decline during the forecast horizon of 2010-2020. The 25-44 age group population is recovering from several years of declining and slow growing trend. The decline was mainly due to the exiting baby-boom cohort. This age group has seen positive growth starting in the year 2004 and will increase by 1.1 percent annual average rate during the forecast horizon. The young adult population (aged 18-24) will change only a little over the forecast period and remain virtually unchanged for most of the years into the future. Although the slow or stagnant growth of college-age population (age 18-24), in general, tend to ease the pressure on public spending on higher education, college enrollment typically goes up during the time of high

unemployment and scarcity of well-paying jobs when even the older people flock back to college to better position themselves in a tough job market. The growth in K-12 population (aged 5-17) will remain low which will translate into slow growth in school enrollments. This school-age population has actually declined in size in recent years and will grow in the future at well below the state average. The growth rate for children under the age of five will remain below zero percent in the near future and will see positive growth only after 2013. Although the number of children under the age of five will decline slightly in the near future, the demand for child care services and pre-Kindergarten program will be additionally determined by the labor force participation and poverty rates of the parents. Overall, elderly population over age 65 will increase rapidly whereas population groups under age 65 will experience slow growth in the coming decade. Hence, based solely on demographics of Oregon, demand for public services geared towards children and young adults will likely to increase at a slower pace, whereas demand for elderly care and services will increase rapidly.

Revenue Forecast

The growing pessimism and uncertainty felt among economic forecasters has yet to be reflected in Oregon's personal income tax collections. Personal income tax revenues have grown at double-digit rates for more than a year, and have shown few signs of slowing down so far this fall. Strength in personal income tax collections is more than making up for weakness in corporate income tax collections and lottery transfers. Overall, Oregon's recent growth in tax revenues ranks among the top handful of states, with only energy producing regions faring better.

Heading into 2012, many of the factors supporting Oregon's strong revenue gains will go away. Not only has growth in employment and wages slowed, many nonwage forms of taxable income are weakening as well. The declines in stock prices and business income seen at the end of the summer will lead to less growth in taxable capital gains and bonuses this year. Also, households have depended on a wide range of alternative taxable income sources in recent years to help replace lost labor income. Some of these sources, including unemployment insurance payments and tax-deferred savings

accounts such as IRAs, have been heavily tapped, and will weaken going forward.

Given these challenges, revenue growth is expected to be cut in half in the months ahead. Income tax collections are expected to increase by roughly \$600 million over the current biennium, matching the growth seen in fiscal year 2011 alone.

As such, the current outlook is only marginally more pessimistic than the September forecast. However, the risks to the outlook are clearly skewed to the downside. There is at least a one in three chance that the U.S. economy will slip back into recession, which would certainly drag Oregon's regional economy down with it. In such a scenario, the forecast for tax revenues would fall on the order of \$1 billion.

After the smoke clears, revenue growth in Oregon and other states will face considerable downward pressure over the 10-year extended forecast horizon. As the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes and general sales taxes will become less effective, and revenue growth will fail to match the pace seen during recent periods of economic expansion.

Forecast Risks

The latest revenue forecast for the current biennium represents the most probable outcome given available information. OEA feels that it is important that anyone using this forecast for decision-making purposes recognize the potential for actual revenues to depart significantly from this projection.

Currently, the overwhelming risk facing the revenue outlook is the threat that the U.S. economy will slip back into recession in the near term. Such a scenario, however it played out, would result in drastic revenue losses.

In our recessionary scenario, job cuts and income losses begin across a range of industries this fall. Over the next year, all 30,000 jobs Oregon gained since the previous trough in 2009 would be lost. A recession of this magnitude would not be a severe one, with job

losses around half the size of what were seen in 2001-03. The working assumption is that there are few excesses to be wrung out, with auto sales, construction activity, business inventories and the like all fairly lean. Job losses would be most concentrated among manufacturing, leisure/hospitality, retailing and government enterprises.

Should a recession of this nature ensue, FY2011-13 biennial income tax revenues would be reduced on the order \$833 million. In addition to income taxes, which we can formally model under alternative scenarios, other general fund taxes would also decline, lowering the general fund by an additional \$100 to \$200 million in 2013-15.

TABLE A.1
Dec 2011 - Other Economic Indicators

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP (Bil of 2005 \$)												
Chain Weight (in billions of \$)	12,703.1	13,088.0	13,308.0	13,491.4	13,810.0	14,298.3	14,778.8	15,200.1	15,586.0	15,950.7	16,344.7	16,769.6
% Ch	(3.5)	3.0	1.7	1.4	2.4	3.5	3.4	2.9	2.5	2.3	2.5	2.6
Price and Wage Indicators												
GDP Implicit Price Deflator,												
Chain Weight U.S., 2005=10	109.7	111.0	113.4	115.0	116.4	118.5	120.7	123.0	125.2	127.3	129.4	131.5
% Ch	1.1	1.2	2.2	1.4	1.2	1.8	1.9	1.8	1.8	1.7	1.6	1.6
Personal Consumption Deflator,												
Chain Weight U.S., 2005=10X	109.2	111.1	113.7	115.1	117.1	119.5	121.9	124.2	126.4	128.7	130.9	133.1
% Ch	0.2	1.8	2.4	1.2	1.7	2.1	2.0	1.8	1.8	1.8	1.7	1.7
CPI, Urban Consumers, 1982-84=100												
Portland-Salem, OR-WA	215.6	218.3	224.7	227.6	231.8	236.6	241.4	246.0	250.9	255.8	261.1	266.4
% Ch	0.1	1.3	2.9	1.3	1.8	2.1	2.0	1.9	2.0	1.9	2.1	2.0
U.S.	214.5	218.1	224.7	227.6	232.0	237.3	242.4	246.9	251.2	255.6	260.0	264.2
% Ch	(0.3)	1.6	3.0	1.3	1.9	2.3	2.1	1.9	1.7	1.8	1.7	1.6
Oregon Average Wage												
Rate (Thous \$)	43.0	44.0	44.9	46.4	47.8	49.3	50.8	52.2	53.9	55.4	57.1	58.8
% Ch	0.9	2.4	2.1	3.3	3.0	3.2	3.1	2.8	3.1	2.8	3.1	3.1
U.S. Average Wage												
Wage Rate (Thous \$)	47.9	49.4	50.9	52.1	53.4	55.0	56.6	58.2	60.0	61.8	63.8	65.8
% Ch	0.1	3.0	3.0	2.4	2.7	2.9	2.9	2.8	3.0	3.1	3.2	3.2
Housing Indicators												
FHFA Oregon Housing Price Index												
Housing Index 1987 Q1=100	410.3	383.5	347.1	323.9	322.4	331.5	346.0	355.6	368.1	380.2	391.8	404.8
% Ch	(7.7)	(6.5)	(9.5)	(6.7)	(0.5)	2.8	4.4	2.8	3.5	3.3	3.1	3.3
FHFA National Housing Price Index (1980Q1=100)												
Housing Index 1980Q1=100	344.4	332.3	314.9	301.5	307.7	322.5	340.4	351.1	364.1	375.9	387.0	399.8
% Ch	(4.6)	(3.5)	(5.2)	(4.3)	2.1	4.8	5.6	3.1	3.7	3.2	3.0	3.3
Housing Starts												
Oregon (Thous)	7.6	7.6	7.7	8.1	10.5	13.9	18.8	22.6	25.2	25.3	25.3	25.2
% Ch	(40.6)	0.7	0.7	5.0	29.8	33.1	34.8	20.0	11.6	0.7	(0.2)	(0.2)
U.S. (Millions)	0.6	0.6	0.6	0.7	0.9	1.3	1.6	1.7	1.8	1.8	1.7	1.7
% Ch	(38.4)	5.6	0.4	13.3	41.8	41.0	21.2	7.6	2.5	(1.5)	(1.1)	(0.9)
Other Indicators												
Industrial Production Index												
U.S. 2002 = 100	85.5	90.1	93.4	94.8	97.8	102.3	106.2	109.1	111.4	113.9	116.8	120.0
% Ch	(11.2)	5.3	3.6	1.6	3.2	4.6	3.8	2.7	2.2	2.2	2.5	2.7
Prime Rate (Percent)												
Prime Rate (Percent)	3.3	3.3	3.3	3.3	3.2	4.2	6.3	7.0	7.0	7.0	7.0	7.0
% Ch	(36.1)	0.0	0.0	0.0	(0.0)	30.3	48.1	11.6	0.0	0.0	0.0	0.0
Population (Millions)												
Oregon	3.82	3.84	3.86	3.89	3.92	3.97	4.01	4.06	4.11	4.16	4.22	4.27
% Ch	0.8	0.6	0.5	0.8	0.9	1.1	1.2	1.2	1.2	1.3	1.3	1.3
U.S.	307.8	310.8	313.8	316.9	319.9	323.0	326.2	329.3	332.5	335.6	338.8	342.0
% Ch	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Timber Harvest (Mil Bd Ft)												
Oregon	2,820.0	3,210.0	3,189.2	3,385.4	3,841.9	4,036.2	4,106.5	4,138.2	4,219.5	4,291.1	4,367.1	4,404.7
% Ch	(18.0)	13.8	(0.6)	6.2	13.5	5.1	1.7	0.8	2.0	1.7	1.8	0.9

Source: State of Oregon Economic and Revenue Forecast