

## MINUTES

A meeting of the Lane County School District No. 19 Budget Committee was held January 15, 2015 in the boardroom of the Administration Center.

### Attendance

Budget Committee members in attendance were, Jim Balumas, Nancy Bigley, Al King, Ken Kohl, Steve Irvin, John Svoboda, included District staff, students and community members identified included Dr. Hertica Martin, Sue Rieke-Smith, Brett Yancey, Yvonne Attebury, Joan Bolls, Brenda Holt, Tom Lindly, Laura Pavlat, Gina King, Don Lamb, Judy Bowden, Sheryl Cramer, Anne Goff and Janis McDonald.

### 1. WELCOME AND INTRODUCTIONS

Dr. Martin called the Springfield Public Schools (SPS) Budget Committee meeting to order in the Boardroom of the District Administration Center at 6:00 p.m. and led the pledge of allegiance. She welcomed those present and briefly reviewed the agenda.

Ms. Bigley arrived at 6:03 p.m.

### 2. LONG RANGE FINANCIAL FORECAST

Mr. Yancey referred to the *Work Session* informational packet, dated January 15, 2015, *Long Range Financial Forecast* and a separate document, *Long-Term Financial Forecast, Years 2012-13 through 2017-18*, dated December 11, 2014. He noted that assumptions were conservative as ongoing legislative actions impacted funding levels. The 2013-14 biennium reflected a State education budget of \$6.55 billion, with 49 percent distributed in year one and 51 percent in year two. In the 2015-17 biennium and fiscal year 2017-18, a \$7.1 billion budget was assumed, consistent with the Governor's budget recommendation. The Joint Ways and Means Committee had since recommended a \$7.235 billion budget. He expressed concern about legislative earmarking of funds. The \$7.1 billion assumption was adjusted by a 2 percent inflation factor.

In response to Mr. Balumas, Mr. Yancey said approximately \$300 million of the Governor's budget represented implementation of full-day kindergarten funding. The Joint Ways and Means Committee's recommendation was a more broad funding approach. The \$300 million earmarked for kindergarten was intended to fund additional staff, but was not sufficient for facilities, furniture, curriculum and materials, which greatly impacted districts without bond support. At this time, full-day kindergarten was not mandatory.

Mr. King commented that based on 2 percent of the State education budget, the SPS allocation was approximately \$6 million over the biennium. He believed that due to previous attrition, smaller rural districts would most likely have facility space available.

Ms. Holt noted that regular school enrollment was projected to decrease, while charter school enrollment was projected to increase. Kindergarten enrollment was projected to only increase aggregate days membership (ADM).

Mr. Yancey said total employee compensation was projected to increase 5.7 percent in fiscal year (FY) 2014-15, which included step increases, insurance cap insurances and increased full-time equivalent (FTE) related to kindergarten. Labor contract negotiations were underway. In FY2015-16, compensation increase was projected at 5.1 percent, which included additional FTE for special education. A reduction in Public Employee Retirement system (PERS) rates was expected after FY2014-15, pending a court decision.

Mr. King commented that the wording of the associated paragraph needed further clarification on what “compensation” represented related to actual FTE increases for kindergarten and other personnel or it would appear as overall salary increases.

Mr. Yancey noted that a 3 percent inflation factor was assumed for other expenses not related to compensation or charter schools. Early retirement programs continued to decrease after FY 2014-15, as based on actuarial calculations.

Mr. Yancey said the long-range forecast included 2 percent of annual operating revenue for reserves in all years, bringing the total reserves to 4 percent. He confirmed that an adverse PERS court decision could have a \$2 million impact on SPS. As shown on a chart showing broad levels of spending, SPS operated in a deficit of \$1.652 million in FY2012-13, which led to a significant reduction in reserve levels. Continued corrective actions were necessary to re-establish adequate reserves.

Ms. Holt reviewed revenue assumptions, which included an annual property tax growth rate of 3.2 percent and a property value rate increase of 2 percent. Property tax collection was projected at 95 percent, and increased to an accumulative rate of 20 percent. Also included was a Lane County Tax and Assessment office correction from FY2013-14 related to International Paper property, or \$354,000 to be paid to SPS. Other Revenues included an increase in FY2013-14 due to Lane Educational Service District service resolution. Enrollment revenue was expected to decrease by 73 ADM in regular education, an increase by 63 ADM in charter schools, and approximately .5 weighted ADM in kindergarten. Approximately 90 percent of charter school revenue was passed through to charter schools.

Mr. Kohl asked for ADM information that compared actual to adopted levels, that a projection of 9,900 higher than previous projections. Mr. Yancey indicated that there continued to be a decline in enrollment, particularly at the secondary level.

Mr. Yancey summarized expenditure detail. He noted that a five-year forecast had not been done in the recent past and that the number of changing variables made forecasting somewhat difficult. He emphasized the importance of efforts to return to a 4 percent reserve level. He encouraged Committee members to provide feedback on the draft document content and language to ensure clarity from a community perspective.

Mr. King questioned if SPS could receive additional revenue from the account set up for PERS funding if the market return was higher than the assumed rate, resulting in a credit amount in the

account. Mr. Yancey confirmed that the PERS market was doing well. In the past, PERS rates were adjusted to reflect surplus interest on monies paid by individual school districts.

### **3. BOND UPDATE**

Mr. Yancey referred to the *Work Session* packet, dated January 15, 2015, *Bond Update*. Previously SPS had been downgraded by Moody's to an A-1 and was given a "negative outlook". A recent rating process resulted in removal of the negative outlook. Standard and Poors (S&P) had maintained SPS at an A- rating. He reviewed a chart of Moody's and S&P ratings, which indicated SPS was still within the "Upper Medium Grade" category containing A-, A and A+. City of Portland had the only AAA (Prime) within Oregon. State of Oregon had a AA+ (High Grade) rating. However, because SPS purchased bond insurance through the Oregon State Bond Insurance Program, SPS was guaranteed a AA+ rating going into the bond rating process. Without the insurance, SPS bonds were less attractive to several investors. Bond sales were completed on January 14 when the bond market had hit a historical low interest rate. There were more bond orders than SPS had available and all bonds were sold. The bond sale was structured as \$1.27 per \$1,000 of property value through 2024, with a reduction to \$1.12 per \$1,000 in 2025 through 2040. Because of current historically low interest rates, advanced refunding, or refinancing, of FY2006-07 bonds were being analyzed, which could significantly lower 2025 levy rates.

Committee members lamented that the previous bond measure failure was actually turning out to be a positive outcome given the current bond market.

Mr. Yancey indicated that the bond sale closing process would occur on January 27 and proceeds would be received on January 29.

In response to Mr. Kohl, Mr. Yancey said SPS went into the market with \$71.5 million in bonds, the sale of which resulted in an additional \$6.7 million in premium non-callable bond proceeds. Issuance and other fees were approximately \$400,000, but the total proceeds transferred were expected to be \$77,675,000. Additional projects identified on the ballot title, but not included within the original \$71.5 million bond amount, would become possible projects, such as safety and security systems and seismic upgrades.

Mr. Yancey reviewed the current status of bond projects. The Educational Specification process for the new Hamlin Middle School construction was continuing, with new school opening scheduled for September 2017. The design phase for Mount Vernon, Riverbend, Maple, Ridgeview and Yolanda elementary school classroom additions was underway. He referred to a document, *General Obligation Bond 2015*, dated December 1, 2014, which showing minor capital projects scheduled over years one through three. Technology upgrades were underway, including the purchase of over 100 new computers for testing purposes; while planning, prioritization and timelines were being developed for other equipment and infrastructure upgrades.

Mr. Yancey referred to a document entitled *Bond Oversight Committee* (undated). The document outlined the proposed committee's purpose, duties and membership, meeting schedule and dissemination of information to the community on bond expenditures.

#### **4. QUALIFIED SCHOOL CONSTRUCTION BOND**

Mr. Yancey referred to the *Work Session* packet, dated January 15, 2015, *Qualified School Construction Bonds*. He reported that SPS property on Rainbow Drive had sold for \$2.1 million. The proceeds, in combination with \$1.4 million in funds dedicated to repayment, would pay off \$3 million in federal-qualified construction bonds used to purchase 15-acres near Bob Straub Parkway for a future school site. SPS had no immediate plans for a new school at that location, so in collaboration with Willamalane Park and Recreation District the property has been developed as a park site that would eventually serve as playground space. Pay-off of the bond loan was another positive factor considered during the bond rating process. The remaining \$.5 million remained in the Capital Improvement Fund.

#### **5. FY2014-2015 BEGINNING ASSUMPTIONS**

Mr. Yancey referred to the *Work Session* packet, dated January 15, 2015, and briefly reviewed *FY2015-16 Beginning Assumptions*. For perspective of the impacts of \$7.1 billion versus \$7.235 billion in State education funding, he indicated that for every \$100 million allocated by the State for the K-12 system, SPS would receive approximately \$900,000. All represented employee contracts expired June 30, 2015 and collective bargaining was scheduled to begin in February. A Consumer Price Index For All Urban Consumers (CPI-u) inflation rate was assumed for all discretionary supplies and services. Reinvestment strategy assumptions were discussed below.

Mr. King said although an accurate forecast was more difficult at this point in time, he cautioned that the Governor's \$7.1 million budget proposal was a starting point. The \$7.235 million represented the lowest number expected, and additional program funding might be added in the future. The advocacy budget proposal was \$7.6 million.

Mr. Yancey said the assumptions shown were conservative. Extensive discussion on reinvestment strategies would occur at Board, Committee, Cabinet, and staff levels.

#### **6. REINVESTMENT STRATEGIES REVIEW**

Mr. Yancey reviewed a document entitled *Reinvestment Priorities, Initial Considerations (High to Low Priority)*, dated August 25, 2014. He emphasized that restoring a 4 percent ending fund balance was shown as the highest priority and had been discussed in depth during the bond rating process; although the district policy was a minimum of 4 percent, the rating agencies had suggested between 5 and 7 percent reserve levels. The rating agencies would continue to review SPS reserve levels for continued progress. Other high priorities included FTE for Special Education program oversight, professional development in Instruction, and Technology.

Ms. Rieke-Smith said approximately 90 percent of professional development support was grant supported. A \$1 million Collaboration Grant was not refunded, so there was difficulty in filling large gaps and maintaining strategically necessary activities. The training has obvious positive impacts on administration and instruction. A variety of funding streams were necessary to

continue training programs. She emphasized the need for increased and sustainable funding; all federal grants came with different constraints.

Mr. Yancey added that the loss of grant funds resulted in the discontinuance of unique projects in individual schools.

In response to Ms. Balumas, Mr. Yancey said salary increases and professional development were not interrelated, but there were some district models with salary increases tied to performance factors, which resulted in mixed success. The Collaboration Grant had four primary areas of emphasis, one of which was compensation. As did other districts and public sectors, SPS struggled with the integration of factors, but continued to discuss fairness, equity and how differentiated pay increases might work.

Ms. Rieke-Smith said in the context of work funded by Chalkboard, there were opportunities for discussion related to professional career pathways and compensation. Retention and promotion of highly qualified staff was dependent on career opportunities. She emphasized that learning and growth in the education field was different than it was in a for-profit environment with clear specifications and measured results.

In response to Mr. Svoboda, Ms. Rieke-Smith said the Collaboration Grant was not refunded because SPS was unable to demonstrate sufficient progress in the area of compensation to the Oregon Department of Education at that point in time. Although the grant was not extended, SPS would have opportunities for funding in the future.

Dr. Martin added that during the grant period in question, SPS was going through the process of making budget cuts and teacher salary increases was not a focus for a number of years. She confirmed that the structure for teacher compensation continued to be discussed.

For Technology, Mr. Yancey noted that FY2014-15 included \$400,000 for Synergy support, devices and infrastructure, as well as \$100,000 for instructional training in Technology. Bond funding would allow greater advancement of a long-range technology plan. As lower priorities, Full-Day Kindergarten funding included \$50,000 for initial implementation. Medium priorities not funded included Community Model Support, Mental Health Support, Extended Year, Instructional Materials and Teacher Leadership programs.

The Committee discussed the numerous areas that did not receive funding in FY2014-15. Mr. Yancey said more extensive input from the Cabinet, Board, Budget Committee and staff would provide guidance on additions, deletions and priorities, and adaption to changes in technology. He noted that Instructional Materials had been woefully underfunded over the past four years. Library resources were not funded adequately, whether in hard copy or digital form.

Mr. King commented that how funding items were described and organized in the budget was changing with the digital age. He suggested it might be helpful to have a technology advisory committee in place.

Mr. Balumas asked that new items added to the Reinvestment Priorities listing be highlighted.

Mr. Yancey added that SPS had gone through a period of cutting millions of dollars from the budget. Rebuilding the SPS budget now would be an opportunity for reinvention and restructuring, that priorities and needs have changed in many ways.

Mr. King said with the expansion of Willamalane and Kidsports into areas that SPS had to cut, for example, refunding at previous levels in specific areas would not be justified.

Mr. Kohl requested that a list of significant areas that were cut in the past was needed for reference. Areas of interest included performing arts and languages.

Mr. Yancey briefly reviewed some low priority areas, and highlighted Talented And Gifted programs and bilingual/immersion programs. Although the document was five months old, he said it was a current basis for starting a detailed discussion on priorities and reinvestment opportunities.

Mr. King suggested that a public hearing be scheduled specifically on the topic of add-backs for the purpose of prioritizing and funding reinvestments.

Committee members requested that reports and minutes be made available on the SPS website. More information and discussion was requested specifically on:

- previous budget cuts,
- bi-lingual programming and funding,
- background information on individual areas to be considered for reinvestment,
- current grants and future grant opportunities, including funding and associated FTE,
- items previously discussed that were not on the current list,
- reinvestments that applied to multiple years and focused on stability and sustainability,
- scheduling of a public hearing to receive public input on reinvestment areas.

## **7. KEY DATES AND FUTURE MEETINGS**

- February 19, 2015 - Work Session
- March 19, 2015 – Work Session
- May 7, 2015 – Budget Meeting, Proposed Budget Presentation
- May 14, 2015 – Budget Meeting
- May 21, 2015 – Budget Meeting

## **8. ADJOURNMENT**

Board Chair Bigley adjourned the meeting at 7:28 p.m.