MINUTES

Chair Bigley called the Springfield Budget Committee Work Session to order in the Boardroom of the District Administration Center at 6:00 p.m. and led the flag salute.

Attendance
Committee Members present included Nancy Bigley, Emilio Hernandez, Steve Irwin, Al King, John Svoboda and Ken Kohl. Jim Balumas, Jonathan Light, Sandra Boyst and Laurie Adams were absent.

District staff, students and community members identified included Dr. Hertica Martin, Brett Yancey, Sue Rieke-Smith, Devon Ashbridge, Gary Cole, Joan Bolls, Brenda Holt, Tom Lindly, Laura Pavlat, Gina King, Chad Towe, Don Lamb, Brian Megert, Anne Goff, Yvonne Atteberry, Sheryl Cramer, Darcy Wallace of the *Springfield Times* and Minutes Taker Janis McDonald.

1. WELCOME AND INTRODUCTIONS
Dr. Martin welcomed returning and new Budget Committee members to the first meeting.

2. ECONOMIC UPDATE & PRESENTATION
Mr. Yancey introduced Tim Duy, author of Tim Duy's Fed Watch, Co-Director of Undergraduate Studies at the University of Oregon Economic Department, and Senior Director of the Oregon Economic Forum.

Mr. Duy provided a PowerPoint presentation of national, state and local economic data and forecasts. Below is a summary of his comments:

- The future financial outlook was positive and a reason to be optimistic. The economic expansion began slowly over five years ago. The average national growth rate has been two and one-half percent; of the last five quarters, three were above three percent, and two were above four percent. All national indicators continued to point to an upward, positive trend.
- Household and consumer spending, retail sales, payroll and industrial production indicators remained solid cyclic indicators that were expected to trend into future years. Households had less debt and foreclosures had decreased.
- National outputs, however, were below potential acceleration levels. Specifically, residential housing showed a slow rebound, particularly in Oregon. In the Eugene area, multi-family construction increased steadily because families were pushed out of the housing market. Funding for first-time homebuyers remained difficult, and so property tax revenue recovery remained slow, especially outside larger metropolitan areas.

- The unemployment rate had finally dropped below six percent on a national level, which supported a transition to a more normal employment market, increased wage growth and more confidence in the job market.
- Related to demographics and underlying issues as the large "boomer" population moved into retirement, spending power had declined. The next population group was smaller and had recovered to 1995 levels. The economic future was in the "millennial" population just entering the labor force.
- Increased job openings had increased. Low levels of layoffs and higher "quit rates" represented a positive churn in the labor market when combined with a six percent unemployment rate.
- Inflation continued to stay low. An increase in interest rates by the Federal Reserve was not expected, which would extend the period of recovery.
- Indicators did not show evidence of another recession within the next 36 to 48 months.
- The national outlook was positive, with the exception of oil price decline. In general that trend was positive for the US economy and consumers through increased spending power, but would challenge the oil industry and communities that dependent on the industry. Unlike recent impacts of the downturn in the housing, mortgage and financial industries, the energy industry was not spread throughout the US economy. Lower income portions of the population would feel the positive effect of decreased oil prices in household budgets.
- The Oregon economy generally follows the US economy. In the last year payroll and employment growth in Oregon outpaced Federal job growth, which was more evident in the Portland metropolitan area. He surmised that the State might be underestimating economic growth in the next biennium; if estimates were revised next year, school systems may see increased revenue.

In response to Mr. Yancey, Mr. Duy said he worked with the State Office of Economic Analysis as part of the Governor's Council of Economic Advisors. He confirmed that his forecasts were shared this week, but there was not enough data available to warrant changes at this time. However, if the Federal Reserve was to raise interest rates in June 2015, recovery may be somewhat lengthened.

- Eugene-Springfield-Medford job growth was somewhat lagging the State average at two to two and one-half percent due to deeper recessive structural impacts. Industries were lost and were not returning.
- In the Portland metropolitan area, which included Vancouver, the rebound was supported by increased jobs and industries in technical areas, such as computer design work and other professional businesses that prefer urban areas. With the exception of finance related activities, all of the sectors have improved more dramatically in the Portland metropolitan area.
- Eugene-Springfield data, although difficult to isolate, showed a reduction in unemployment claims and an increased activity in lodging, tourism and travel. The number of residential units sold and construction-permitting levels were back to 2000 levels, but slow to recover, with the exception of multi-family units concentrated around the University of Oregon. Migration into the area was beginning slowly, consistent with

the demand for new housing. The leisure-hospitality area was growing throughout the state. Affordable restaurants and microbrew boom activities were up.

- Eugene-Springfield-Medford financial employment sectors, such as banking, mortgage and real estate, were slower to recover.
- Although Eugene-Springfield-Medford construction activities remained slow, the numbers did not reflect the out-of-area contractors and temporary employees working in the area; they were reflected in the Portland area job numbers.
- Eugene-Springfield-Medford trade and transportation employment, which included warehousing and retail trade, was showing a strong increase in recovery. An increased student population also supported retail trade. Government-related employment remained restrained. Education and health services job recovery remained constant. Manufacturing job recovery remained extremely slow due to structural issues, including the loss of Hynix and RV related manufacturing.

In summary he said although the Eugene-Springfield area was not experiencing the strongest growth and recovery, it was measurably better than three years ago. The smaller the community, the harder the road to recovery was.

In response to Dr. Martin, Mr. Duy said he still expected another recession in three to four years, but that would also depend on what the Federal Reserve does. The US economy has been more resilient than expected. Institutions that made plan for a slow rebound in 2008 and 2009 were more successful in weathering the recession.

In response to Mr. Lindly, Mr. Duy said he projected a two percent inflation rate and a two percent CPI rate, with a one and one-half to two percent inflation rate in labor costs. Low fuel prices (currently $58 per barrel) were not sustainable, but were expected to decline further this year and begin to increase next year to a more sustainable level over a couple of years ($80 per barrel). In general, US oil production quickly became aggressive. As reinvestment in oil production does not occur, supply would decline and prices would increase. Other major commodity markets also impacted fuel prices.

In response to Mr. King, Mr. Duy said indicators for wage growth correlated with an unemployment rate below six percent. The Federal Reserve generally wants to achieve a four percent wage growth rate with a two percent inflation rate, but history has not shown that to be a difficult target. Current Federal Reserve forecasts show a lengthy period of soft financial conditions, returning to normal in 2017. The key issues for the Eugene-Springfield area continued to be the rate of property tax expansion from new construction, and the level of supporting migration and demographic changes.

3. 2013-2014 AUDITED YEAR-END

Ms. Bolls reviewed major points included in Auditors letter to the Board. The District received a "clean audit, unmodified opinion, with no audit findings". Next year the District was required to report Public Employee Retirement System (PERS) funding as a liability on the financial statement. She reviewed specific areas of the audit document. The District's net asset position was positive, a new fund for self-insured health insurance was reflected, and she encouraged Budget Committee members to review the section on statistical trends.

In response to Mr. Svoboda, Ms. Bolls said an actuarial firm would determine the net value of PERS liability for each District and a report from the State was expected in June. There continued to be controversy whether PERS, as a State pension system, was a school district liability.

4. 2014-2015 FISCAL YEAR

- **Summary of Adopted Budget**

Mr. Yancey said that the information, in combination with Mr. Duy's financial outlook, was intended to provide background for the budget process. He reviewed a document entitled *2014-15 Decisions*, which was included in the Work Session agenda packet. He highlighted budget decisions made for fiscal year 2014-2015.

- Restore a full school year calendar ($3.52 million)
- Increase General Fund Reserves ($2.5 million)
- Full Day Kindergarten Planning ($50,000)
- Strengthen Special Education ($665,000)
- Preserve Co-Curricular ($250,000)
- Increase student access to technology ($300,000)

He said restoration of a full school year calendar was a good decision for the community. There was a team working on the implementation and impacts of full-day kindergarten. Implementation will impact all other grades as it rolls through elementary levels, requiring changes in curriculum in all grades. Co-Curricular represented increased costs in stipends, which had historically been under budgeted. Technology increase represented an initial investment, which would be continued with bond funding.

- **Year-to-Date Financial Statement**

Mr. Yancey reviewed highlights of *Springfield School District 19, 2014-2015 Revenue -- Expenditure Forecast as of 11/30/14*, included in the Work Session agenda packet. In summary, complete information on revenue from property tax collections was yet available, which included resolution of a correction by the Tax Assessor's Office. Total revenue estimates were currently estimated at 99.7 percent of budgeted levels. Final expenditure estimates for Personal Services depended on the cost of substitute teachers. Estimated employee benefit expenditures of 97.88 percent represented a sizeable savings. The End Fund Balance (EFB) was estimated to be almost $3.1 million, which was a continued effort to build toward four percent, or $3.7 million.

Mr. King commented that, related to the EFB, an Oregon Supreme Court ruling on employer contribution levels to PERS was outstanding; if an adverse opinion was rendered, the current District EFB level was a risk factor. The final ruling was expected in March 2015.

5. LONG RANGE FORECAST INTRODUCTION

Mr. Yancey referred to a document entitled *Springfield School District 10, Long-Term Financial Forecast, Fiscal Years 2012-13 through 2017-18*. The Committee was encouraged to review the document, which would be covered in detail at a future meeting. He introduced Brenda Holt, Financial Analyst for the budget process. She provided an overview of the document.

Mr. Yancey emphasized that the document included full day kindergarten, full school day calendar, conservative estimates to meet contractual obligations, but no decisions related to expenditures otherwise. The Governor's budget was $6.9 billion and the assumption in the forecast was based on $7.1 billion, which was a beginning point.

Related to enrollment shown on page two, Ms. Holt confirmed that regular student enrollment decreased and charter school enrollment increased, and the weighted ADM included the shift to full day kindergarten.

In response to Mr. King's question on employee compensation assumptions on page two, Ms. Holt confirmed that PERS and tax benefits were included in the 5.7 percent increase noted. At this point PERS rates were based on the CPI adjustment, rather than unknown details; this was a budget variable that could change.

6. GENERAL OBLIGATION BOND MEASURE

- **Update and Progress**

Mr. Yancey reviewed *$71.5 Million GO Bond*, which was included in the Work Session agenda packet. The official ballot count was 13,607 voting yes to 11,993 voting no, which indicated there was considerable work to do, including forming an Oversight Committee over the next six months for review bond measure expenditures and communication to the community.

He noted that Piper Jaffrey, formerly known as Seattle Northwest Division, was chosen as Underwriter. The School Board approved the results and authorized the levy on December 8. On December 19 through 22, meetings with Rating Agencies would occur, which would include a discussion of EFB concerns. The District's goal was to emphasize a trend to re-establish a four percent EFB consistent with Board policy and to restore an AA rating. Bond insurance would be purchased through a State-backed guarantee program, which increased bond marketability.

In response to Mr. Kohl, Mr. Yancey said agencies consider factors such as local community employment base, financial policies, management of resources and decision-making strategy. He said the rating agencies did not have reserve benchmarks or recommendations on reserve levels, but best practices or government accounting standards indicated that an organization the District's size should maintain a five to ten percent reserve level.

On January 12, a marketing or pre-selling information packet would be provided to potential bond buyers. On January 13, the bonds would be sold but funding would not occur until January 29. Projects being funded by bond monies would proceed. The District's written obligation required that 85 percent of funds be spent within three calendar years, so selling the bonds in January provided the greatest length of time for expenditure. The Board passed a resolution in August that allowed the District to expend funds for bond-related projects in advance of funding, and receive reimbursement from bond proceeds when funded, without impacting prior year finances.

Mr. Yancey reviewed projects funded through GO Bonds and current project status:

- Hamlin Middle School ($43.5 million) – the Educational Specification Process was underway, the Board adopted the construction management/general contractor (CM/GC) process on December 8, and the architect selection process would occur December 2014 through March 2015. Mr. Yancey reviewed the CM/GC process in detail, which would result in a District middle school design for both current and future construction. The new Hamlin Middle School was scheduled to open in September 2017.
- Additional Classroom Space ($7.5 million) – with architects of record and building plans already in place, three architect firms were hired and the design process would begin December 15, 2014. Additional space will be added to Maple, Mt. Vernon, Riverbend, Ridgeview and Yolanda elementary schools and will be completed in December 2015. Space will be tight during construction, but the savings achieved by not using temporary buildings was significant.
- Minor Capital Improvements ($6.9 million) – distributed was a three-year schedule of projects throughout the District that was subject to change. Of special note was completion of the replacement of all 850 doorknobs and locks throughout the District during December to ensure safety through internal locking capability.

Mr. King expressed concern that library space utilization at Springfield High School had changed significantly with the reduction of books, and was space that could easily used for other uses.

In response to Mr. King's question, Mr. Yancey said that Thurston Elementary School parking area improvement had been moved to the third year because more discussion with staff and community members was necessary.

- Technology Investments ($13.6 million) – Mr. Lindly said the initial focus was design of a prototype design and plan to upgrade networks systemically for optimum longevity, and in coordination with security system upgrades and Voice over Internet Protocol. The design incorporates STEM/STEAM needs for the use of three types of devices and addresses State Smarter Balance testing requirements and space needs. Library upgrades were being designed with more immediate testing needs and space usage in mind. Technical professional staff was meeting to ensure strategic school connections to Lane Community College and the University of Oregon.

6. KEY DATES AND FUTURE MEETINGS

Mr. Yancey indicated that in January 2015, the Budget Committee would review long-range financial forecasts, reinvestment strategies, resource availability and the collective bargaining process.

7. ADJOURNMENT

Chair Bigley adjourned the meeting at 7:43 p.m.