

Redmond School District
Work Session
March 7, 2012

In Attendance: Chair Jim Erickson, Vice-Chair Cathy Miller, Directors Ric Little, AJ Losoya, Bob Perry, Superintendent Shay Mikalson, RSD Staff; Mike McIntosh, Trish Huspek, Gina Blanchette, Association representative Karen Gray, Media - Leslie Pugmire-Hole (*Spokesman*), Ben Botkin (*Bend Bulletin*)

Board Chair Jim Erickson called the work session to order with a quorum of five at 9:01 a.m.

Mike McIntosh, Chief Operations Officer stated that today's work session would be an opportunity to present information regarding next year's budget projections as well as the next two biennium. He stated, "The information that you will receive today is dismal but there are a number of things that are critical the Board understands on how we arrived at this information. The goal today is not to depict the solution but to accurately capture the situation." He further stated the District has two employee associations who will be integral in that process."

Mike McIntosh introduced the fiscal staff; Sheri Solesbee, Lisa Thompson, Barbara Rodman, and Mark Balsalobre. He stated, "These are the people who work behind the scenes without receiving the credit and kudos they deserve for the work they do every day to manage the finances of the district." Mr. McIntosh also acknowledged Mollie O'Brien, Business Manager, and Kathy Steinert, Assistant Business Manager, for their talent ability to put all of the fiscal information in a format that is easily understandable.

Superintendent Mikalson highlighted points from the Governor's agenda for P-20 education system. He stated that on the last day of session Senate Bill 1581 passed. All of the details are not yet known but what is known is that the K-12 education system is underfunded. "When we are looking at a quality education model we need to determine what are the outcomes we want and what are the resources that are needed to get there."

He further stated that not only are we getting better outcomes for students locally but across the state outcomes are increasing even in light of reduced funding. "I say this to acknowledge the hard work of teachers who are achieving these outcomes for students even in light of that reduced funding."

"The numbers we are moving forward to you is based on 38.5% share of state revenue. The assumptions that we will talk about for the rest of the day are based on receiving the same amount of funding. However, I am not saying that funding level will hold true for five years. We know that K-12 education has a certain slice of the pie. We are following the state's projection on what that percentage will be. We have gotten to the point where we simply cannot say we need to do more with less. We are doing that. Where we are now is to the point of determining where our leverage points are."

Superintendent Mikalson asked the Board to think about how we make sure during this difficult time we put the resources to those leverage points. "We need to focus in on where the resources will go to have the most impact to students. Those decisions will be difficult. The effort of our adults in the system is amazing and we need to make sure we are "real" about what we are expecting of them. In order for that to occur something that is great will need to lose resources to make those priorities happen."

Mike McIntosh, Mollie O'Brien and Kathy Steinert reviewed with the Board the assumptions, background data, resources used to make the projections presented today.

- The cuts that have been made the last several years are to keep up with a flat funding base. Operating costs continue to increase.
- Revenue projections as of February 23, 2012 were reviewed.
- Are we going to need to make cuts this year? The answer is no. However, it is conceivable if we get another revenue forecast from the state that could alter.
- To make the numbers work that have been projected the state is projecting a 14% increase in revenue in the biennium.

Karen Gray asked if we were able to realized savings from this year, would that amount be applied to the ending fund balance and carry over to next year. Mr. McIntosh stated those funds would be applied to next year's beginning fund balance.

- The State School Fund is adjusted based on how much property taxes are collected. If the property taxes collected are collected at a higher rate than anticipated, the state school funds are decreased proportionately. The assessor believed that our property tax base would be losing about 8% of its value and in reality it only decreased by 2.5%.
- The process used in determining projected enrollment was reviewed. The ending projection includes the weighted funding received for special education and ELL students. In December of last year projected enrollment for the following year is submitted to the state. We projected 6500 students. Some of those students are in special categories and receive a weighted factor (ADMw). This process occurs in all districts in the state.
- The transportation reimbursement formula is not likely to change but with increased fuel costs the district's costs for transportation will increase.
- Redmond School District Enrollment Summary was reviewed. In February, 2011 the enrollment was 6938. We currently have 6925 students. That number indicates we will need the same staffing next year.
- As the cost analysis and budgets were prepared they looked at projected enrollment based on current trends and enrollment. The big change will be a projection of 150 students attending the RPA middle school. Those numbers have been incorporated in this projected enrollment.

Cathy Miller asked if there has been thought given to going back to trimesters at the secondary level. Superintendent Mikalson reported the driving force in changing to this schedule was to provide the classes that students need to take but to also make sure class sizes were managed in light of a declining budget.

Cathy Miller stated that with Ridgeview High School opening, it will be critical to consider FTE to manage the theater and restaurant. These two areas could have huge revenue producing potential in the future.

Public Employees Retirement System (PERS)

There is PERS liability that we are required to fund. Kathy Steinert reviewed the PERS liability for next year and the subsequent biennium. The District had a 1.6 million PERS reserve. It was decided to use one-half of that reserve this year and spend the balance next year. This assumption is based on receiving Board approval to spend the balance next year.

At the first year of the biennium the District saw a dramatic increase in PERS expenses which was driven by the evaluation of the PERS assets which was dramatically lower. Because the assets declined dramatically, district's

realized an additional increase in PERS liability. This year's PERS liability to the district is \$5.1 million. Rates climbed dramatically due to a poor asset evaluation due to the investment marketplace. Tier 1 and Tier 2 employees are promised an annual 8% return in their investments. The only way to get out of that deficit is for public entities to pay more into the system to cover those costs. If your investments don't perform 8% or greater there is a deficit.

This issue is bigger than the district. This will need to be resolved by the legislature. This is a major impact on our operation and of districts across the state. The PERS investment return for 2011 was 2.2% but we are paying 8% to Tier 1 and Tier 2 employees.

Mike McIntosh, Mollie O'Brien and Kathy Steinert reviewed with the Board General Fund Resources, Special Revenue Funds, Other Funds Guide, Internal Service Funds, Debt Service Schedule, and Budget Sheets sections of the budget binder. The binder is provided to the Board as a resource as we proceed in the budget process.

Mike McIntosh stated, "The District is the steward of the money that has been entrusted to us. With the help of the financial committee we have a good source of expertise to manage those resources."

Long Range Financial Plans

Mike McIntosh stated that a great amount of effort has been put into providing this long range financial plan and the key supporting assumptions and data. "This document shows there are no "quick fixes" to the financial situation we are in. We will be in this situation for at least the next two biennium, perhaps longer." It is important to note they cannot be 100% confident of the projections.

The assumptions in this long range plan are based on are the "status quo." Everything has been based on current contract language.

The District did not increase the CAP on what they are paying towards employee healthcare. The burden of the increases has been born by the employee and not the District. While that is a serious impact to employees it does not affect the general fund budget.

In order for us to predict revenues we must know how many students we will have. Current trends in enrollment have been reflected in the document. We will see a small increase over the next five years. Once you establish how many students you will have then you determine how many weighted students there will be. HB 3417 was passed one year ago which allows us to calculate revenues separately between charter schools and district schools. With charter school enrollment increasing and the District's enrollment s decreasing slightly or staying flat

Mike McIntosh reviewed the projected number of students, the amount of FTE that will be needed to instruct those students, salary related expenditures, as well as non-salaried expenditures.

Superintendent Mikalson stated, "The reality is that we cannot afford to lose adults in front of students."

Mike McIntosh stated that another reality is that in the past we would have been counting on enrollment growth and adjusted funding in May. Budgets have been built for years on that assumption. That is no longer our reality. "We need to break the habit of spending out of our savings account to achieve a balanced budget."

We are required to have an ending fund balance. It is currently 5% of our adopted budget. The district's auditors would support a larger percentage.

Superintendent Mikalson stated, "It will take a collective and unified effort to meet the needs of the students and to shape the priorities of the District. The District is in the position of not having any "fat" to trim. When you cut now it will be into the muscle of the District."

Expenditure reduction scenarios were reviewed. It is important to note these are not decisions that have been made.

Mike McIntosh stated they are trying hard not to jump to solutions at this point. “We have a strong partnership with both associations to get to the solutions. This is only meant to be perspective to the Board to help them understand the impact of this situation.”

Jim Erickson asked if there is there anything that can be done between now and the end of June that would boost the ending fund balance.

Mike McIntosh stated that everything we do this year to reduce expenditures helps the beginning fund balance for next year.

Cathy Miller stated that as a member of the Board one of her priorities is to not cut any more people. “We might need to establish that as a priority and to start looking at other ways.”

Superintendent Mikalson asked the Board to provide feedback to either he or Mike McIntosh on the assumptions that have been used to develop this long range financial plan. “We need to make sure we are on the same page with those before we move to priorities and solutions to the deficit.”

Mike McIntosh stated, “We have a budget problem and I appreciate Karen Gray for being in attendance today. Today is an attempt to get the information out on the table to begin the conversations.”

Mollie O’Brien stated that everyone in the State of Oregon is in the same position. “We need to get to the legislators to change the way the system operates so that we can provide good education to our students.”

Jim Erickson thanked Mike McIntosh and his team for the information provided in the budget binder. “The document is very specific and clear.”

ADJOURN

AJ Losoya moved and Ric Little seconded the motion to adjourn at 12:30 p.m. Motion carried 5-0.

Votes: Jim Erickson-Yes; Ric Little-Yes; Bob Perry-Yes; Cathy Miller-Yes; AJ Losoya - Yes

Jim Erickson, School Board Chair

Trish Huspek, Executive Assistant