MINUTES OF THE WORK SESSION OF THE BOARD OF DIRECTORS
SCHOOL DISTRICT 4J, LANE COUNTY, OREGON

February 9, 2011

The Board of Directors of School District No. 4J, Lane County, Eugene, Oregon, held an Executive Session at 6 p.m. and a work session at 7 p.m. on February 9, 2011, at the Education Center, 200 North Monroe Street, Eugene, Oregon. Notice of the meeting was mailed to the media and posted in the Education Center on February 4, 2011, and published in The Register-Guard on February 7, 2011.

ROLL CALL

BOARD MEMBERS:
Craig Smith, Chair
Alicia Hays, Vice Chair
Jennifer Geller
Beth Gerot
Anne Marie Levis
Jim Torrey
Mary Walston

STAFF:
George Russell, Superintendent of Schools and District Clerk
Carl Hermanns, Assistant Superintendent/Chief Academic Officer
Jon Lauch, Director of Facilities Management
Susan Fahey, Chief Financial Officer
Sarah Cramer
Caroline Passerotti

STUDENT REPRESENTATIVES:
Karen McGhehey
Liz Gray
Jenny Koh

CITY OF EUGENE REPRESENTATIVES:
Sue Cutsogeorge, Finance Director

MEDIA:
KRVM

Call to Order, Roll Call and Flag Salute

Mr. Smith called the work session of the School District 4J Board of Directors to order at 7:00 p.m. and led the flag salute.
Work Session: Potential City Tax for Schools

Mr. Smith reminded those present that the work session would primarily involve a discussion of the proposed tax levy by the City of Eugene. He noted that the Eugene City Council was expected to take formal action regarding the levy on Monday, February 14. He noted that no formal action would be taken by the 4J Board during the work session and that their discussion was to help the Board better understand various issues regarding the proposed levy.

Superintendent Russell noted that Chief Financial Officer Susan Fahey would present information regarding the proposed tax levy and would be available to answer questions.

Superintendent Russell commented that there continued to be a number of unknown factors surrounding the sustainable budget proposal that had recently been adopted by the District.

Mr. Smith stated that the only specific request from the Eugene City Council to the District regarding the proposed tax levy had been for the precise dollar amount that the District would like to see from the tax measure.

Ms. Fahey referred the Board members to a list of issues to be considered regarding the proposed City income tax and noted that the information contained therein had been prepared by 4J staff and subsequently reviewed by Eugene City staff and the District's financial analysts.

Ms. Fahey noted that the Eugene City staff had had its financial consultants run two separate tax scenarios, one for $12 million and another for $19 million. Ms. Fahey proceeded to describe the various uncertainties that had been identified with respect to the two scenarios.

Ms. Fahey described the possible timelines for which tax receipts might be generated under the proposed local income tax measure.

Ms. Fahey briefly described the potential taxpayer impacts from the proposed tax measure and noted that Eugene City staff was currently working with a consultant to determine tax structure options. She noted that federal PERS income was exempt by statute from local income taxes and that the most recent available information indicated that approximately 24% of district students lived outside of the Eugene City limits.

Mr. Smith believed that the precise gross amount of tax revenue the District needed was still in flux but anticipated that the Board and District staff could determine a precise amount before the Eugene City Council's meeting on Monday, February 14. Ms. Fahey confirmed Mr. Smith's statement.

Mr. Smith commented that it would be important to arrive at an exact tax revenue figure so that the risks involved might be more easily identified, particularly with respect to any bridging strategies that the District might need to sustain itself before the tax revenues manifested.

Ms. Fahey responded to Mr. Smith's statement and stated that after the first tax filing in April of 2012 the District could expect to receive half of the tax revenues in May of 2012 and the remainder of the revenues in October of 2012.

Ms. Fahey, responding to a question from Mr. Smith, stated that City staff had indicated that if the tax measure was passed as late as November of 2011 then the necessary tax forms would not be ready for income tax returns the following year.
City of Eugene Finance Director Sue Cutsogeorge added that the City might be able to engage in implementation activities for the new tax before November of 2011 but that there would be various costs and risks associated with such a plan.

Ms. Cutsogeorge, responding to a question from Mr. Smith, stated that she did not know if any sort of intergovernmental agreement might be necessary to more effectively implement the tax collection strategies.

Mr. Smith suggested that it would be highly unlikely that the tax collection procedures could be implemented without expending considerable resources first.

Ms. Fahey stated that the District might chose to use internal reserve funding as a bridging strategy. She further noted that if it was the District's intent to reduce the budget reduction strategies that directly affected classroom instruction, the District would need to use the internal reserves in order to retain teachers and staff.

Mr. Smith asked what actions the District might take over the next several weeks in order implement the decisions that had recently been made regarding staff ratios. Ms. Fahey responded that in order for the District to complete its budget process by June it would need to issue layoff notices to teachers and staff in accordance with the employee contracts. She summarized that when considered against the timelines with which a local income tax might be implemented, the District would need to plan for the layoffs as if no tax measure would be implemented.

Ms. Fahey described how tax anticipation notes (TAN) might be used as another bridging strategy. She noted that TAN's were essentially a mechanism by which governmental agencies could issue debts to be repaid by future tax revenues when the timing of the revenues did not match expenditure costs. Ms. Fahey outlined information regarding the maturation and borrowing costs associated with the use of TAN's.

Ms. Fahey commented that with the State's recent overestimation of Measure 66 and 67 tax revenue, the District's financial analysts believed it was probable that the District would also have to pledge its general fund revenues including property tax receipts to moderate its TAN borrowing costs. She further commented that if the actual income tax received was less than the TAN debt service requirements then the District would have to use property tax receipts to pay off the TAN's.

Ms. Fahey thanked Steve Robinson for his work in compiling the cash flow analyses regarding the potential local tax measure.

Ms. Fahey stated that if a local income tax was projected to net the District approximately $12 million and the District significantly reduced or eliminated staffing reductions, the District might have to issue approximately $5 million worth of TAN's and use some combination of reserve funding strategies. She noted that additional ongoing cuts would be likely in FY2011-12 and FY2012-13. She noted that at the $19 million level of local income tax funding no additional reductions would be necessary in FY2012-13 and that TAN's would probably not need to be issued after the first year.

Ms. Fahey noted that once a local income tax expired, substantial reductions would need to be made by the District unless the State economy improved significantly.
Mr. Torrey noted his assumption that the total amount of tax revenue generated by the local tax would be approximately $26.5 million including the tax revenues for the Bethel School District.

Mr. Torrey asked if City staff had drafted a proposed motion to be made at the City Council meeting on February 14. Ms. Cutsogeorge answered that staff would present a variety of options to the Council at the February 14 meeting. She further noted that the deadline for the Council to place a measure on the May ballot would be February 15.

Mr. Torrey noted his concern that any City mandates might adversely affect the District's ability to effectively negotiate with collective bargaining units.

Ms. Geller asked if District staff had investigated how anticipated tax revenues might be used to restore furlough days. Ms. Fahey responded that furlough days were more readily handled internally without issuing TAN's.

Mr. Smith discussed how the District might use revenues generated by a local tax measure in relation to the bridging strategies previously referenced by Ms. Fahey. He noted that District staff needed to have effective communication with Eugene City staff as their discussions with the Eugene City Council progressed.

Mr. Torrey noted that many of the discussions surrounding a potential local tax measure had focused on classroom teachers but not other classified District employees. He asked if any of the City staff's recommendations to the City Council would involve discussions regarding other collective bargaining units.

Ms. Cutsogeorge confirmed that most of the Council discussions regarding the local tax measure had focused on teacher retention and the reduction of furlough days.

Ms. Walston noted that the restoration of furlough days included more than just teachers and that to add back whole school days would also include the use of all classified District staff.

Ms. Levis noted that timing was a critical issue with respect to a local income tax measure and asked if the passage of a tax measure in May would allow the District to avoid the layoff processes required by the employee contracts.

Ms. Fahey described how the District's budget processes might be affected by the local tax measure and noted that it might still be uncertain how much revenue would be generated. She noted that it was important to carefully consider what levels of risk the 4J Board would be willing to assume to spend funds up front or issue debt in order to reduce cuts.

Ms. Fahey, responding to a question from Ms. Levis, noted that the District would have to issue layoff notices in March.

Ms. Fahey noted that if the tax measure was placed on the November ballot and the District did not pre-fund any expenditures there would be no effect on reductions in FY2012-13.

Mr. Smith commented that it was a problematic process to implement a new process such as a local city income tax.

Ms. Geller stated that there had been other instances where the District had issued layoff notices but had not ultimately had to go through with the layoffs due to changing budget forecasts.
Ms. Fahey confirmed Ms. Geller’s previous statement and noted that there had been instances where teachers and staff had been laid off but were then recalled.

Ms. Cutsogeorge, responding to a question from Mr. Torrey, noted that City staff on direction of the City Council was reviewing the use of a 6-year sunset provision for the proposed local income tax. Superintendent Russell added that there might be the possibility that a 4-year sunset provision might be used.

Mr. Torrey noted his concerns regarding conditions from the Eugene City Council that might be placed on tax revenues for the District.

Mr. Smith responded to Mr. Torrey's comment and noted that the uncertainties that were inherent in the proposed local tax measure made it difficult for the District to make a firm commitment.

Ms. Cutsogeorge, responding to a question from Mr. Torrey, stated that the Eugene City Council would expect a report from the District on how local tax revenue had been used and would also convene a panel of citizen representatives to review how the tax revenues had been used. She anticipated that more specific information regarding reviews of the application of local tax revenues would be presented as the matter moved forward.

Mr. Smith expressed that it was important to determine the various risk elements present in a local income tax measure.

Ms. Geller believed that the local income tax revenue process could be crafted in such a manner as to allow for greater flexibility with respect to the various uncertainties that had been identified.

Mr. Torrey hoped that the 4J Board would be able to discuss any potential legal challenges to a local income tax. He noted his concerns that the tax measure might be subject to various legal challenges if it was drafted and implemented too quickly.

Mr. Smith responded to Mr. Torrey’s comment and asked if the legal risks involved in a local income tax measure would be shared by the City and the School District 4J.

The Board members discussed with Ms. Cutsogeorge how any legal risks associated with the implementation of a local income tax would be allocated between the City of Eugene and School District 4J.

Ms. Cutsogeorge suggested that the City functioned as a conduit for the District to have the tax measure and noted her personal opinion that the City would not be required to assume a disproportionate share of the any risks that might be involved.

Ms. Hays clarified that the City of Eugene would be making the final decision regarding the local tax measure and the 4J Board was only making the Eugene City Council aware of its concerns.

Ms. Fahey noted that the Eugene City Manager had also requested specific responses to questions regarding the use of furlough days, layoff, staff ratios and other issues. She noted that the 4J Board and Superintendent Russell might chose to make those responses in a manner that identified and emphasized those risks that the 4J Board was most concerned about.
Superintendent Russell suggested that the risk allocations present in the local tax measure would need to be addressed in some sort of intergovernmental agreement between the City and the District.

Ms. Cutsogeorge suggested that the City staff would draft the tax measure so that the City's costs for administering the tax were covered. She assumed that any legal costs associated with challenges to the tax would be covered under those same administrative costs.

Mr. Smith stated that the District was not actually anticipating tax revenue receipts but was actually anticipating a direct transfer of funds from the City of Eugene.

Mr. Torrey noted that he had attended a recent City Council meeting regarding the tax measure and believed that it might be better to have the tax measure placed on the ballot in November so that certain questions regarding the risks involved might be answered more effectively.

Ms. Hays noted that Governor Kitzhaber's proposed budget had frontloaded education and believed that there could be some mitigation of the reductions that had been planned.

Ms. Hays believed it might be very difficult to implement a new tax.

Mr. Smith noted there was a great deal of uncertainty regarding how much money the District might actually receive from a local income tax.

Mr. Smith recognized that there were many details regarding the proposed local tax measure that had yet to be determined.

Ms. Levis noted that from a political standpoint the public might be confused about certain aspects of the tax measure and that such confusion could jeopardize the success of bond measure funding that might also be placed on the May or November ballots.

Ms. Cutsogeorge noted that there would be a public comment opportunity at the City Council meeting on February 14 and that the Council would welcome input from District representatives regarding the local tax measure and any other associated issues.

Mr. Torrey discussed how it was vitally important for the District to maintain the goodwill of the state legislators and the community regardless of how the local income tax issue moved forward.

Ms. Walston asked how the inequity of having many students who lived outside of the City limits had been addressed in previous tax scenarios. Ms. Cutsogeorge noted that certain activities fees had been increased for students who resided outside the City limits in order to compensate. She further noted that the City would not be able to assess similar fees under the local income tax measure that was currently being considered.

Ms. Geller agreed with Mr. Torrey that it was important to consider the goodwill of the community with respect to a local income tax measure. She noted from her previous experience campaigning for school funds that a great deal of community members were aware of the funding crisis faced by the District.
Mr. Torrey asked how a reduction of the bond measures that had been proposed would affect any local income tax funding received by the District. He further noted that the passage of the bond measures would allow the District to make structural adjustments to the District that would sustain it beyond the 6-year provision of the local income tax measure.

Ms. Fahey stated that any passage of any level of bond above $15 million would still come with the qualified school construction bond funds provided by federal stimulus funding. She noted that the passage of the bond measure would mean that the District would not have to increase the taxpayer rates for general obligation bonds.

Superintendent Russell perceived from his own conversations with City representatives that the City Council needed a definitive message from the 4J Board that the tax measure was something that they actually wanted. He believed from the current discussions that the Board members had inaccurately characterized the local tax measure as something that was the primary charge of the City Council and not School District 4J.

Mr. Smith suggested that it might have been more prudent to hold a joint work session between the Eugene City Council and the School District 4J board to determine the various risk factors associated with the local tax measure.

Ms. Hays commented that it was important to communicate effectively with the Eugene City Council as they made their decisions regarding the local income tax measure.

Ms. Walston agreed that it would be important to determine the potential risks involved in the implementation of a local income tax to fund the District.

Ms. Geller suggested that the language of the local tax measure could be crafted in such a way as to mitigate the risks associated with it.

Ms. Walston recognized that there were many unknown factors that could affect the implementation of a local income tax to help fund the District.

Ms. Cutsogeorge, responding to a question from Mr. Torrey, stated that the City Council would vote to approve a resolution placing the local tax measure on the ballot at their meeting on February 14 and then the Eugene City Attorney would subsequently prepare the actual ballot language.

Steve Robinson, a former School District 4J Board member, believed that the District could minimize the risks associated with the local income tax measure so long as it acted prudently. He expressed that the District would be no worse off with the implementation of the tax proposal than it would be without it.

Mr. Smith stated that the Board looked forward to learning more about the City Council's discussions on February 14.
Adjourn

Mr. Smith adjourned the meeting at 8:15 p.m.

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George Russell     Craig Smith
District Clerk      Board Chair

(Recorded by Wade Hicks)