

Board of Directors Meeting  
School District 4J, Lane County  
200 N. Monroe Street  
Wednesday, February 2, 2011

**5:00 p.m. EXECUTIVE SESSION:** Under provisions of ORS 192.610 – 192.690, Open Meeting Laws, the Board of Directors will conduct an Executive Session for the following purpose:

To conduct deliberations with persons designated by the governing body to carry on labor negotiations, pursuant to ORS 192.660 (2) (d).

**6:00 p.m. REGULAR BOARD MEETING**

**TO: Board of Directors**

**FROM: George Russell  
Superintendent of Schools**

**RE: Reports and Recommendations**

#### **VII. ITEMS FOR INFORMATION**

1. **Receive the District's Annual Report on Compliance with Oregon Minimum Standards** (Staff: Carl Hermanns)

Annually, superintendents are required to report the district's status with respect to the Standards for Public Elementary and Secondary Schools from OAR Chapter 581, Division 22. Assistant Superintendent Carl Hermanns has prepared the Annual Report on Compliance with Oregon Standards and the district is in compliance. Mr. Hermanns will present a brief overview of the report and respond to board questions. A copy of the report is included in the board packet.

#### **VIII. ITEMS FOR ACTION AT THIS MEETING**

1. **Consider Approval of Public Charter School Application from Coburg Community Charter School** (Staff: Caroline Passerotti and Brad New)

##### **BACKGROUND**

The 1999 Oregon Legislature passed legislation requiring local school boards to accept applications from private non-profit corporations who wish to establish charter schools. The legislation, which has been incorporated into statute in ORS 338.005 through ORS 338.185, establishes the criteria school boards must use to evaluate the applications and the conditions under which they are to be funded.

In accordance with the law and school board policy, Coburg Community Charter School (CCCS) submitted a charter school application to the district on November 15, 2010. Within 15 business days of receipt of the application, on December 7, 2010, staff notified the applicant that the proposal was considered to be complete.

On January 19, 2011, a public hearing on the provisions of the proposal was held, as required under ORS 338.055(1) and School Board Policy LBE, Public Charter Schools.

Staff has reviewed the application in detail and received clarifications from the applicant, as required. The superintendent and chief academic officer have also reviewed the application against the criteria and requirements in School Board Policy LBE.

## **DISCUSSION**

1. Rationale: Findings have been developed in response to Criteria for the Consideration of a Charter School Application (School Board Policy LBE):

(1) The demonstrated sustainable support for the public charter school by teachers, parents, students, and other community members, including comments received at the required public hearing.

Finding 1: CCCS has met this requirement.

Discussion: Oregon's charter school statute requires that the applicant demonstrate that the proposed charter school has sustainable support by teachers, parents, students and other community members. While the law does not establish specific benchmarks for demonstrating sustainable support, it does specifically include, but is not limited to, comments received at the public hearing.

The CCCS applicants have included in their application evidence of support from parents/students, community members, and current and former educators, including references to the following items:

- A board of directors consisting of 7 community members/parents.
- 150 people, who have participated in a survey, attended town hall meetings and participated in activities of the charter development committee.
- Charter development committee consisting of 10 parents, 3 community members, 4 city officials and 5 current/former educators.
- Future parent, community and educator support will be developed and maintained by means of a community advisory committee, financial oversight committee, site council and teacher's council.

The application demonstrates that the developers have established broad-based and ongoing support that includes the required component constituencies and indicates a level of current and ongoing support for the development and operation of a charter school within the Coburg community. The application contains reference to direct interest from families of children seeking to enroll students in the school as well as direct involvement of parents and community members in the development of the proposed instructional program.

The discussion of closing the existing Coburg elementary school has created a sense of need and a level of urgency and support within the families attending the school. In addition, community leaders, including the Mayor and members of the

Coburg City Council have stated that having a community school is critical to their viability as a city and that absence of a community school would jeopardize their ability to grow and thrive.

The CCCS development team, accompanied by representatives from the police department, fire department, local grange, Rotary club, City Council and Government, attended the public hearing held on January 19, 2011. A CCCS representative provided testimony describing the Coburg Elementary School as a hub of the community with a 150 year tradition. The community members attending the hearing were clearly there in support of the proposed charter school.

In conclusion, CCCS application demonstrates that the proposed charter school has the level of sustainable support necessary to recommend approval.

- (2) The demonstrated financial stability of the public charter school, including the demonstrated ability of the charter school to have a sound financial management system in place at the time the school begins operating.

Finding 2: With the successful negotiation of a facility lease, Coburg Community Charter School has demonstrated that it would be able to operate with financial stability, based on the financial projections it has submitted and the funding level required in district board policy. It has demonstrated its ability to have a sound financial management system in place at the time the school begins operations.

Discussion:

Funding Level. District Board Policy LBE requires that the district provide the minimum level of funding established by statute for all students without a disability. This represents 80% of the State General Purpose Grant per student for students enrolled in kindergarten through grade eight (8).

In addition to the financial projections developed as part of their charter proposals, charter organizers were asked to submit additional projections to reflect the lower level of state funding the district anticipates as a result of Governor Kitzhaber's draft budget for K-12 education in the 2011-13 biennium. While initial projections submitted on behalf of CCCS were based on a lower funding assumption, revised projections included these amounts. Assuming General Purpose Grant amounts per ADMw of \$5,742 in 2011-12 and \$5,910 in 2012-13, charter school payments would be as follows:

	<u>2011-12</u>	<u>2012-13</u>
Grades K-8	\$5,742 x 80% = \$4,594	\$5,910 x 80% = \$4,728

On January 20, 2011, CCCS organizers were notified by the Oregon Department of Education that they were not awarded a federal charter school planning grant and encouraged to reapply in the fall of 2011. The grant award would have yielded \$55,000 to support planning activities and up to \$225,000 for program implementation and start-up costs. In a letter to the Superintendent and Board and also in a meeting with district staff, organizers stated that they believe their proposal is financially sound without the supplemental funds and that the track record of the

Coburg community in providing support to their school is proven. They resubmitted financial projections to demonstrate how the charter school would be a financially stable organization without that funding.

Financial Stability. In the charter application, CCCS provided three-year financial projections based on three different enrollment scenarios in combination with a state funding assumption lower than the amounts described above. Under their low enrollment projection, the proposed charter school would enroll 100 students (90 ADM) in Year 1, 125 (112.5 ADM) in Year 2, and 160 (147.5 ADM) in Year 3. The medium enrollment scenario assumed 120 students (107.5 ADM) in Year 1, 140 (127.5 ADM) in Year 2, and 170 (157.5 ADM) in Year 3. Their most optimistic projection would enroll 150 students (137.5 ADM) in Year 1, 175 (162.5 ADM) in Year 2, and 200 (187.5 ADM) in Year 3. In each scenario, assuming the award of federal charter school grant funding, charter school organizers demonstrated the ability to achieve a positive net income from operations, positive cash balance and positive unreserved ending fund balance. With Coburg Elementary School's current year enrollment at 110 students, it is reasonable to assume the charter school could attract enough students to fulfill its low enrollment scenario.

Organizers were responsive to requests for additional information and clarification by district staff and demonstrated a solid understanding of what would be required to manage a financially stable charter school.

In addition to conservative state funding estimates, revenue projections assumed that the charter school would receive financial donations ranging from \$20,000 in its first year of operation to \$32,000 in the third year, in its most conservative enrollment scenario. Projected donations are increased in higher enrollment scenarios. The Coburg community has donated on behalf of their elementary school in the past, and these amounts are comparable to those agreed to in the Intergovernmental Agreement between the City of Coburg and the district for the years 2009-10 through 2011-12. A payment for \$10,000 was made to the district as agreed for the 2009-10 school year.

Expenditure projections appeared to be reasonable with teacher salaries roughly equivalent to what the district pays beginning teachers. Similar to other charter applicants, grant funding is expected to fund a substantial amount of start-up costs, including staff development, furniture and fixtures, instructional supplies and curriculum, and computers. Facilities budgets were sufficient to cover known operating costs at the Coburg site and also afford lease payment of \$2,400 in Year 1 and \$12,000 in subsequent years to the district. It is uncertain whether the charter school could afford a greater lease payment that would provide a profit to the district in its first two years of operation, under its most conservative enrollment projection (e.g., 90 ADM in Year 1, 112.5 ADM in Year 2). Depending upon actual enrollment, organizers have expressed interest in pursuing a lease agreement that permits the district to break even in the beginning years and grows toward a mutually beneficial lease payment in the long run.

*Update:* Upon notification that they did not receive the charter school grant award, charter organizers resubmitted three-year financial projections for their low (90 ADM) and medium (107.5 ADM) enrollment scenarios. Under both scenarios, first year

revenues were increased to reflect the state funding amounts described above and include the following one-time resources: \$25,000 balance of funds in a parent group account, \$20,000 in proceeds from an auction planned for the spring of 2011, and \$10,000 contribution from the City of Coburg. A January 24, 2011 letter affirming City support for the proposed charter school is included in your board packet. Expenditures for costs such as staff curriculum training, curriculum and instructional supplies, and legal fees were added. Support from the Cascade Heights Charter School has been pledged to offset curriculum training costs. Projected lease amounts were doubled to \$4,800 in Year 1 and \$24,000 in Years 2 and 3 to reflect possible inclusion of some furnishings and equipment; remaining facilities budgets remained the same.

It is difficult to identify a market rate for the rental of the current Coburg Elementary School site, as there are few if any comparable properties not owned and in use by the school district. Facilities staff is in the process of developing a calculation for rent that could be used for any district property. Assuming that facility, custodial and maintenance costs are responsibility of the lessee, annual avoided costs of approximately \$30,000 are anticipated. Lease calculations will include a reasonable rate of return plus annualized costs for roofing and exterior painting. Staff believes the final calculation will result in a lease payment in the range of \$20,000 to \$35,000 per year.

Assuming 90 ADM in the first year and the charter school's revised expenditure assumptions, the charter school would be able to cover start-up and operating costs and produce an ending fund balance of \$15,441 in Year 1, \$19,638 in Year 2 and \$53,312 in Year 3. If the charter school paid the district an annual facility lease amount of \$25,000, they would experience an operating deficit of \$4,759 in the first year and slightly lower ending fund balances of \$18,638 and \$52,312 in the next two years.

With 107.5 ADM in the first year, both revenues and expenditures were increased to reflect the higher student count. Ending fund balances grew to \$29,344 in Year 1, \$49,357 in Year 2 and \$118,609 in Year 3. Using the lease assumptions above, the charter school would be able to pay a market rent and also achieve financial stability in each year of the projection.

Sound Financial Management System. Under Board Policy LBE, "financial management systems" consist of accounting and financial record keeping procedures, including financial reporting, cash management and investment practices, incorporating appropriate segregation of duties.

CCCS has addressed each of these areas satisfactorily and demonstrated they would be able to implement a sound financial system by the time the school begins operations.

(3) The capability of the applicant, in terms of support and planning, to specifically provide the comprehensive instructional programs to students, as outlined in its proposal.

Finding 3: CCCS has met this requirement.

Discussion: The proposal is sufficient in presenting a program that will provide comprehensive instructional programming.

- (4) The capability of the applicant, in terms of support and planning, to specifically provide the comprehensive instructional programs to students identified by the applicant as academically low achieving.

Finding 4: CCCS has met this requirement.

Discussion: The proposal demonstrates the ability to provide comprehensive instructional programming to students identified as academically low achieving.

- (5) The extent to which the proposal adequately addresses the requirements of the proposal process.

Finding 5: Coburg Community Charter School has adequately addressed the requirements of the proposal process as outlined in District Board Policy LBE, Public Charter Schools.

Discussion: While CCCS has adequately addressed the requirements of District Board Policy LBE, a couple of items merit comment:

In response #31, the charter proposal states that the district shall be responsible for the transportation of CCCS students. It also states that CCCS transportation requirements will be the same as for students who attend district alternative schools and who transfer between neighborhood schools.

The district maintains that it is not responsible for providing transportation by bus or otherwise of any students to district-sponsored charter schools. Charter school students are allowed to ride on district buses to and from the charter school on existing district routes, to the extent seats are available for such students.

Response #32 applies only to proposed charter schools which represent the conversion of existing public schools and asks what arrangements are being made for students, teachers and other school employees who choose not to attend or be employed by the charter school. CCCS organizers responded to this question, indicating the district's plans for transferring students to other district schools and directing any interested Coburg Elementary staff to apply for available positions at CCCS.

The district does not consider CCCS to be a conversion of a district school to a charter school, as the Superintendent has recommended closure of Coburg Elementary and consolidation of its student population with Gilham Elementary to achieve savings to offset general fund budget deficits and an enhanced instructional program for students.

- (6) Whether the value of the public charter school is outweighed by any directly identifiable, significant, and adverse impact on the quality of the public education of students residing within District 4J. A "directly identifiable, significant and adverse impact" is defined as the impact of adverse loss or reduction in staff,

student, program, or funds that may reduce the quality of existing district educational programs. This may include, but not be limited to, the following current data as compared to similar data from preceding years:

- (a) Student enrollment;
- (b) Student teacher ratio;
- (c) Staffing with appropriately licensed or endorsed personnel;
- (d) Student learning and performance;
- (e) Specialty programs or activities such as music, physical education, foreign language, talented and gifted and English Language Learners;
- (f) Revenue;
- (g) Expenditures for maintenance and upkeep of district facilities.

**Finding 6:** It is unclear whether the unique benefits of the charter school to the Coburg community are outweighed by directly identifiable, significant and adverse impacts on the quality of public education of students residing within District 4J.

**Discussion:**

**Value:** It is not possible to calculate the “value” of the proposed charter school with accuracy since such a value must at this point in the process be based primarily on assumptions and predictions. However, the statutory language establishes a balancing test, weighing the “value” of a proposed charter school with its adverse impact to the district’s other students. With that in mind, the value of the proposed Coburg Community Charter School may be considered both from the perspective of the value to the defined Coburg community as well as to the entire district.

The value of the CCCS to the Coburg community has been shown throughout the application and in the testimony provided at the hearing: the applicants have stated that a community school is critical to the continued viability of Coburg as a city. City officials are concerned that current and future city development efforts may be jeopardized if the school is closed. From the perspective of the Coburg community, the CCCS adds significant value.

From the perspective of the school district, the value of the CCCS is less clear. The value to the district of maintaining an elementary school in the Coburg community is much diluted when viewed across the school district and is less significant to the district than to the Coburg community.

**Impact:** In response to the impact of the Great Recession on state and local revenues and continued declines in district enrollment, Lane County School District 4J has increased school staffing ratios, cut school days, reduced central support services, negotiated pay freezes and furlough days for employees, and used millions of dollars of reserves to achieve a balanced operating budget. Because further declines in revenues and increases in expenditures are projected, additional general fund budget reductions ranging from \$22 million for \$28 million are anticipated for the 2011-12 school year. To address the Board’s goal of achieving a sustainable budget, the Superintendent is recommending a broad range of budget reductions for 2011-12 which include eliminating 56 to 84 teaching positions, cutting 43 to 62 FTE classified and administrative staff, negotiating 9 to 13 furlough days (including six school days) and pay freezes for employees, closing four elementary schools, and using additional reserves.

Further declines in student enrollment from the approval of a new charter school would only serve to magnify the negative impact of these reductions on the quality of instruction for remaining district students. Savings from the reduction of teacher and supply budgets allocated on a per student basis combined with state funding retained by the district (20% for students in kindergarten through grade 8) are not sufficient to offset the loss of state funding to the district.

Assuming that the charter school enrolls 90 to 110 ADM in its first year, Coburg Elementary School's October 1, 2010 enrollment of 110 is the ceiling for negative impact to district enrollment and 85% of charter school students are district residents (similar to Ridgeline Montessori Public Charter School and The Village School), staff estimates that approving this charter school could result in the loss of 77 to 94 ADM (with kindergarten students counted at 0.5) to the district in 2011-12. Under that assumption the negative monetary impact would be \$100,000 to \$120,000 annually, at a time that the district is seeking \$210,000 in on-going savings from the closure of this elementary school.

Under the Superintendent's recommendation to close Coburg Elementary School, current students would be relocated to Gilham Elementary School. The district's rationale for closing and consolidating schools has been based on the combined benefits of savings to the district operating budget and an enhanced instructional program for students. In the current economic environment, a larger school can provide more educational offerings and benefit from economies of scale that a smaller school cannot. Approval of a charter school that would retain students instead of relocating them to Gilham prevents students attending Gilham from realizing the benefits intended by the proposed closure and consolidation. Under the Superintendent's recommendations to increase the student to teacher ratio, Gilham would lose approximately 1.4 to 2.6 FTE teaching staff. Moving 77 Coburg students to Gilham would support the retention of an estimated 2.7 to 2.9 FTE teaching staff, offsetting the negative impact of possible budget reductions to the students in the school.

The district incurs additional costs to address the needs of special education students who attend charter schools. The district receives no extra state revenue for special education students residing within district boundaries, yet additional staff must be assigned to the charter school site. Students who previously attended district schools would already be included in the district's student count for "second weight" funding purposes. Students newly enrolled in the charter school would not bring more state resources since the district special education population already exceeds the statutory cap of 11% of resident average daily membership (ADMr). Should the charter school organize its school year differently than the district school calendar included in the contract with the Eugene Education Association, licensed staff serving special education students at the charter school must also be paid on an extended contract to work the additional days that the charter school offers classes.

In the current climate of budget reductions, these higher costs require reductions to budgets for other student services. The extent of the negative impact to the district general fund budget would depend on the size of the special education population. Presently, the district assigns 0.5 FTE licensed staff to provide special education

services at Coburg Elementary School. If the proportion of special education students in the proposed charter school remained the same, providing staffing to CCCS would cost approximately \$30,000, not including travel time. No additional extended contract days are anticipated.

The approval of Coburg Community Charter School would increase the requirements for oversight and administration by central staff. This would result in the dilution of support provided to existing district schools and possibly greater workload for school staff, potentially negatively impacting students in those schools.

**Conclusion:** Sponsoring a new public charter school at this time would further erode the district's funding base for existing district programs, negatively impacting the quality of instruction for students in those programs. The net negative impact of reductions in state funding relative to lower teacher and supply budgets and higher costs associated with providing special education services would directly result in additional general fund budget reductions for the district and diminishing of instructional offerings to students. The benefit of retaining a community school in the City of Coburg is of unique and significant value to Coburg, but of less value to the Eugene 4J district as a whole. It is unclear whether this benefit is outweighed by the negative impact to the education of remaining district students in a time of severe budget reductions.

(7) Whether there are arrangements for any necessary special education and related services for children with disabilities.

Finding 7: CCCS has met this requirement.

Discussion: Adequate understanding of responsibilities for special education services has been demonstrated.

## 2. Options and Alternatives:

Should the Board disapprove an application, written notice of this action will be provided to the applicant within 30 days of the public hearing, stating the reasons for disapproval and suggesting remedial measures, as required in Board Policy LBE.

The applicant may submit an amended proposal to the superintendent within 30 days of the disapproval. The Board is required by statute and board policy to act on the amended proposal within 20 days of receiving it.

If the amended proposal is not approved by the Board, the applicant may appeal the decision of the School District Board to the State Board of Education, pursuant to ORS 338.055(4). As provided in ORS 338.075, the State Board will attempt to mediate a resolution between the district and the applicant. If a mediated resolution is not achieved, the State Board may either reject the proposal, upholding the District Board decision, or sponsor the public charter school. The opening of the charter school under State Board sponsorship would be expected to be delayed by one year.

### 3. Budget/Resource Implications

#### District Sponsorship

See the Discussion under (6) above for the impact of Board approval of a charter school.

#### State Board of Education Sponsorship

Should the Board disapprove a charter application and it is successful in its appeal to the State Board of Education, the district must pay State School Fund grant amounts to the charter school at a higher rate than if the district were sponsoring the charter school. For students in kindergarten through grade 8, a minimum of 90% of the General Purpose Grant per ADMw (average daily membership, weighted) would be paid to the charter school, as opposed to the 80% minimum that applies to school districts. For students in grades 9 through 12, the 95% minimum remains the same.

In addition, one half of the General Purpose Grant per ADMw retained by the district must be paid to the Department of Education for all charter school students. Under district sponsorship, one half of the General Purpose Grant per ADMw retained by the district must only be paid to the home district of charter school students whose parents reside within the boundaries of another district.

### 4. Board and Superintendent Goals

The charter school recommendation addresses board goals of increasing achievement for all students and closing the achievement gap and also providing prudent stewardship of district resources to best support student success, educational equity and choice. In addition, it reflects the engagement of district stakeholders in supporting our students and schools.

### **RECOMMENDATION**

Based on the findings above and subject to the following conditions, the Superintendent recommends that the Board approve the charter proposal for Coburg Community Charter School for a three-year term.

Approval is contingent on meeting the following conditions by July 15, 2011:

1. Successfully negotiate a charter contract with the district;
2. Successfully negotiate a facility lease with the district (including furnishings and equipment, as required);
3. Provide the district with a report of actual enrollment and revised operating budget demonstrating financial stability;
4. Adopt board policies and provide copies to the district;
5. Hire licensed staff and provide the district with evidence of compliance with staff qualifications requirements;
6. Acquire curriculum, as proposed in the application;
7. Provide the district with evidence of qualification as an exempt organization under 501(c)(3) of the Internal Revenue Code;
8. Provide evidence to the district that all employees have been enrolled in PERS;
9. Provide the district with proof of required insurance coverage; and
10. Adopt a school calendar indicating instructional days and provide a copy to the district.

Upon Board action, this report will constitute formal written notice to the applicant of the Board's decision.

Copies of the major section of the charter proposal and financial projections were provided at your January 19, 2011 meeting.

Copies of letters of support which were provided as part of the charter school proposal were included in your January 25, 2011 board packet. An additional letter of support is included in this packet.

**2. Disapprove the Public Charter School Application from College of Knowledge**  
(Staff: Caroline Passerotti and Brad New)

**BACKGROUND**

The 1999 Oregon Legislature passed legislation requiring local school boards to accept applications from private non-profit corporations who wish to establish charter schools. The legislation, which has been incorporated into statute in ORS 338.005 through ORS 338.185, establishes the criteria school boards must use to evaluate the applications and the conditions under which they are to be funded.

In accordance with the law and school board policy, College of Knowledge (CK) submitted a charter school application to the district on November 15, 2010. Within 15 business days of receipt of the application, on December 7, 2010, staff notified the applicant that the proposal was considered to be complete.

On January 19, 2011, a public hearing on the provisions of the proposal was held, as required under ORS 338.055 (1) and School Board Policy LBE, Public Charter Schools.

Staff has reviewed the application in detail and received clarifications from the applicant, as required. The superintendent and chief academic officer have also reviewed the application against the criteria and requirements in School Board Policy LBE, Public Charter Schools.

**DISCUSSION**

1. Rationale: Findings have been developed in response to Criteria for the Consideration of a Charter School Application (School Board Policy LBE):

(1) The demonstrated sustainable support for the public charter school by teachers, parents, students, and other community members, including comments received at the required public hearing.

Finding 1: The College of Knowledge has not met this criterion.

Discussion: Oregon's charter school statute requires that the applicant demonstrate that the proposed charter school has sustainable support by teachers, parents, students and other community members. While the law does not establish specific benchmarks for demonstrating sustainable support, it does specifically include, but is not limited to, comments received at the public hearing.

The College of Knowledge applicants have included in their application evidence of support from parents/students, community members, and current and former educators, including references to the following items:

- A three member board of directors, all of whom are Eugene residents.
- Two founders are Eugene residents.
- The application includes reference to potential cooperative ventures with two community organizations, Centro Latino Americano and Next Step Recycling.

The application does not demonstrate a level of “sustainable support” beyond a general interest in investigating possible future joint ventures. The application does not appear to contain or refer to direct interest from families of children seeking to enroll students in the school or involvement of parents and community members in the development of the instructional program or in the creation of a sense of need, calling for a program like the College of Knowledge. We believe that the application does not meet the statutory requirement of “demonstrated, sustainable support,” and does not at this time represent the personal, student-focused parental or other involved adult support critical to the success of a new charter school.

Members of the College of Knowledge development team attended the public hearing held on January 19, 2011. A CK representative and two individuals, including members of the CK development team and board, provided testimony to the school board on the proposed charter school. Speakers highlighted their desire to see a proficiency-based program to meet the needs of at-risk students.

While establishing the support from those actively involved with the development of the College of Knowledge, the application and the testimony at the public hearing provides limited evidence of support from those students and parents the program would serve. We would conclude that at this time the application does not demonstrate the sustainable support necessary to recommend approval.

- (2) The demonstrated financial stability of the public charter school, including the demonstrated ability of the charter school to have a sound financial management system in place at the time the school begins operating.

Finding 2: College of Knowledge has not met this criterion.

Discussion:

Funding Level. District Board Policy LBE requires that the district provide the minimum level of funding established by statute for all students without a disability. This represents 95% of the State General Purpose Grant per student for students enrolled in grades 9 through 12.

In addition to the financial projections developed as part of their charter proposals, charter organizers were asked to submit additional projections that reflect the lower level of state funding the district anticipates as a result of Governor Kitzhaber’s draft budget for K-12 education in the 2011-13 biennium. Assuming General Purpose Grant amounts per ADMw of \$5,742 in 2011-12 and \$5,910 in 2012-13, charter school payments would be as follows:

	<u>2011-12</u>	<u>2012-13</u>
Grades 9-12	$\$5,742 \times 95\% = \$5,455$	$\$5,910 \times 95\% = \$5,615$

CK has received a federal charter school planning grant in the amount of \$55,000 to support pre-opening activities. The district is serving as fiscal agent for the planning grant. Should the district approve their charter application, charter organizers would be eligible to receive a federal implementation grant of up to \$225,000, for which they would serve as their own fiscal agent. Proceeds can be used for curriculum and professional development, accounting fees, attorney fees for start-up expenses, minor building renovations, and administrative fees. Construction or purchase of facilities is not permitted with these funds.

Financial Stability. College of Knowledge provided three-year financial projections reflecting the state funding assumptions described above and showing positive net income from operations, positive cash balance and positive unreserved ending fund balance. While organizers were responsive to requests by district staff, at this time they demonstrated only a superficial understanding of what would be required to operate a financially stable charter school.

Revenue assumptions assumed first year enrollment of 100, growing to 125 in the second year, and included \$10,000 to \$30,000 in income from fundraising over the first three years. It is unclear whether the charter school would be able to attract enrollment at this level, given Network Charter School's recent downward adjustment of its projected enrollment to 102 students in grades 7 through 12. Expenditure assumptions did not adequately address required employee compensation costs. Because a facility site has not yet been identified, it is difficult to determine the adequacy of proposed facilities costs.

Sound Financial Management System. Under Board Policy LBE, "financial management systems" consist of accounting and financial record keeping procedures, including financial reporting, cash management and investment practices, incorporating appropriate segregation of duties.

College of Knowledge addressed each of these areas in its proposed policies; however, the ability to achieve the required segregation of duties depended on positions that were not included in the proposed financial projections.

- (3) The capability of the applicant, in terms of support and planning, to specifically provide the comprehensive instructional programs to students, as outlined in its proposal.

Finding 3: The proposal is not sufficient in presenting a program that will provide comprehensive instructional programming.

Discussion: The proposal does not sufficiently demonstrate how its program design translates into a comprehensive program upon implementation. Further, adequate consideration has not been given to the complexity and challenge of creating a comprehensive school program for smaller numbers of students, especially relating to the high school curriculum and current high school graduation requirements. In regard to expanding school choices to 4J students, the district already provides

Alternative Education services to over 500 students through district-sponsored alternative schools and contracts with private alternative schools. Among these options are the Early College High School programs which offer at-risk students the opportunity to prepare for and enter college. This is a national model that has a research-based track record of success. This system of alternatives is supported by a network of service providers at the schools and in the community, as well as a comprehensive assessment and referral process that ensures that students are given opportunities at schools that meet their needs and interests.

- (4) The capability of the applicant, in terms of support and planning, to specifically provide the comprehensive instructional programs to students identified by the applicant as academically low achieving.

Finding 4: The proposal does not demonstrate the ability to provide comprehensive instructional programming to students identified as academically low achieving.

Discussion: The proposal does not demonstrate the ability of the school to respond to the needs of students who enter the school at various achievement levels. The proposal does not demonstrate a systematic approach to identification and intervention with students who have chronic low academic achievement.

- (5) The extent to which the proposal adequately addresses the requirements of the proposal process.

Finding 5: College of Knowledge has adequately addressed these requirements.

Discussion:

It should be noted that Response #11 states that the College of Knowledge is still pursuing sites for facilities.

- (6) Whether the value of the public charter school is outweighed by any directly identifiable, significant, and adverse impact on the quality of the public education of students residing within District 4J. A "directly identifiable, significant and adverse impact" is defined as the impact of adverse loss or reduction in staff, student, program, or funds that may reduce the quality of existing district educational programs. This may include, but not be limited to, the following current data as compared to similar data from preceding years:

- (a) Student enrollment;
- (b) Student teacher ratio;
- (c) Staffing with appropriately licensed or endorsed personnel;
- (d) Student learning and performance;
- (e) Specialty programs or activities such as music, physical education, foreign language, talented and gifted and English Language Learners;
- (f) Revenue;
- (g) Expenditures for maintenance and upkeep of district facilities.

Finding 6: The value of the public charter school is outweighed by adverse impacts on the quality of public education of students residing within District 4J.

Discussion:

**Value:** It is not possible to calculate the “value” of the proposed charter school with accuracy since such a value must at this point in the process be based primarily on assumptions and predictions. However, the statutory language establishes a balancing test, weighing the “value” of a proposed charter school with its adverse impact to the district’s other students. With that in mind, the value of the proposed College of Knowledge may be considered both from the perspective of the value to the CK developers and potential students and parents, as well as to the entire district.

The value to the CK developers was shown through the materials submitted in the application and in the testimony provided at the public hearing. However, neither the application nor the public hearing demonstrated or defined an identifiable group of students and parents whose needs or desires this program would meet. That is not to say that there are not students or parents who are interested in seeing such a program, but potential students and parents were not identified in the application or at the hearing.

From the perspective of the school district, the value of the College of Knowledge is also unclear. Without a clearly defined group of interested and involved students and parents actively supporting the development of a charter school, the value to the district must be evaluated over the entire district. From that perspective, the value of the College of Knowledge to the school district is much diluted when viewed across the school district and is less significant to the district.

Also, because the proposal does not demonstrate that the school would have the ability to respond to the needs of students entering the school at various achievement levels, it is unclear how the school would contribute to the district’s ability to serve students in need of additional assistance.

As stated above in the discussion under Finding (3), the district already provides Alternative Education services to over 500 students through district-sponsored alternative schools and contracts with private alternative schools.

**Impact:** In response to the impact of the Great Recession on state and local revenues and continued declines in district enrollment, Lane County School District 4J has increased school staffing ratios, cut school days, reduced central support services, negotiated pay freezes and furlough days for employees, and used millions of dollars of reserves to achieve a balanced operating budget. Because further declines in revenues and increases in expenditures are projected, additional general fund budget reductions ranging from \$22 million for \$28 million are anticipated for the 2011-12 school year. To address the Board’s goal of achieving a sustainable budget, the Superintendent is recommending a broad range of budget reductions for 2011-12 which include eliminating 56 to 84 teaching positions, cutting 43 to 62 FTE classified and administrative staff, negotiating 9 to 13 furlough days (including six school days) and pay freezes for employees, closing four elementary schools, and using additional reserves.

Further declines in student enrollment from the approval of a new charter school would only serve to magnify the negative impact of these reductions on the quality of

instruction for remaining district students. Savings from the reduction of teacher and supply budgets allocated on a per student basis combined with state funding retained by the district (95% for students in grades 9 through 12) are not sufficient to offset the loss of state funding to the district.

Assuming that the charter school enrolls 100 ADM in its first year and that 75% of charter school students are district residents (similar to Network Charter School), staff estimates that approving this charter school could result in the loss of 75 ADM to the district in 2011-12. The net negative monetary impact would be approximately \$180,000.

Because charter school organizers have not yet identified a location for the College of Knowledge, it is difficult to anticipate the direct impact of the proposed charter school on the education of district students. However, because the district's alternative high schools (Churchill Alternative, North Alternative and Opportunity Center) serve the same student base described as the target population for College of Knowledge, it could be assumed that enrollment might shift from the alternative high schools to the proposed charter school. Collectively, district alternative high schools reported enrollment of 372 students as of December 1, 2010 and were allocated a total of 12.7 FTE licensed staff for 2010-11. Assuming the same percentage of district residents as Network Charter School, 100 first year students would equate to 75 ADM district residents. If 75 ADM transferred from district alternative high schools to College of Knowledge, the alternative schools would experience a 2.8 FTE decline in teaching staff, representing 22% of total staff and exceeding staffing allocated to North Alternative High School. A decline in enrollment of this magnitude could have a damaging effect on the district's ability to serve some of its at-risk students.

The district incurs additional costs to address the needs of special education students who attend charter schools. The district receives no extra state revenue for special education students residing within district boundaries, yet additional staff must be assigned to the charter school site. Students who previously attended district schools would already be included in the district's student count for "second weight" funding purposes. Students newly enrolled in the charter school would not bring more state resources since the district special education population already exceeds the statutory cap of 11% of resident average daily membership (ADMr). Should the charter school organize its school year differently than the district school calendar included in the contract with the Eugene Education Association, licensed staff serving special education students at the charter school must also be paid on an extended contract to work the additional days that the charter school offers classes.

In the current climate of budget reductions, these higher costs require reductions to budgets for other student services. The extent of the negative impact to the district general fund budget would depend on the size of the special education population. It is expected that a population of at-risk students would include a higher than average percentage of special education students. Assuming that one third of the 4J resident population requires special education services (similar to Network Charter School) and that staffing is provided according to the 45 to 1 student to teacher ratio used to staff district learning centers, it would cost the district an additional \$45,000 to

provide special education services to 4J students attending the proposed charter school. This does not include travel time and assumes no additional extended contract days would be required.

The approval of College of Knowledge would increase the requirements for oversight and administration by central staff. This would result in the dilution of support provided to existing district schools and possibly greater workload for school staff, potentially negatively impacting students in those schools.

**Conclusion:** Sponsoring a new public charter school at this time would further erode the district's funding base for existing district programs, negatively impacting the quality of instruction for students in those programs. The net negative impact of reductions in state funding relative to lower teacher and supply budgets and higher costs associated with providing special education services would directly result in additional general fund budget reductions for the district and diminishing of instructional offerings to students. Based on the fact that the district already operates three alternative high school programs, sponsors a charter school which serves primarily at-risk high school students, and manages alternative education placements for students, the value The College of Knowledge would bring to the district in this time of severe budget reductions is outweighed by the negative impact to the education of remaining district students.

(7) Whether there are arrangements for any necessary special education and related services for children with disabilities.

Finding 7: CK has met this requirement.

Discussion: Adequate understanding of responsibilities for special education services has been demonstrated.

## 2. Options and Alternatives:

Should the Board disapprove an application, written notice of this action will be provided to the applicant within 30 days of the public hearing, stating the reasons for disapproval and suggesting remedial measures, as required in Board Policy LBE.

The applicant may submit an amended proposal to the superintendent within 30 days of the disapproval. The Board is required by statute and board policy to act on the amended proposal within 20 days of receiving it.

If the amended proposal is not approved by the Board, the applicant may appeal the decision of the School District Board to the State Board of Education, pursuant to ORS 338.055(4). As provided in ORS 338.075, the State Board will attempt to mediate a resolution between the district and the applicant. If a mediated resolution is not achieved, the State Board may either reject the proposal, upholding the District Board decision, or sponsor the public charter school. The opening of the charter school under State Board sponsorship would be expected to be delayed by one year.

### 3. Budget/Resource Implications

#### District Sponsorship

See the Discussion under (6) above for the impact of Board approval of a charter school.

#### State Board of Education Sponsorship

Should the Board disapprove a charter application and it is successful in its appeal to the State Board of Education, the district must pay State School Fund grant amounts to the charter school at a higher rate than if the district were sponsoring the charter school. For students in kindergarten through grade 8, a minimum of 90% of the General Purpose Grant per ADMw (average daily membership, weighted) would be paid to the charter school, as opposed to the 80% minimum that applies to school districts. For students in grades 9 through 12, the 95% minimum remains the same.

In addition, one half of the General Purpose Grant per ADMw retained by the district must be paid to the Department of Education for all charter school students. Under district sponsorship, one half of the General Purpose Grant per ADMw retained by the district must only be paid to the home district of charter school students whose parents reside within the boundaries of another district.

### 4. Board and Superintendent Goals

The charter school recommendation addresses board goals of increasing achievement for all students and closing the achievement gap and also providing prudent stewardship of district resources to best support student success, educational equity and choice. In addition, it reflects the engagement of district stakeholders in supporting our students and schools.

#### **RECOMMENDATION**

Based on findings that the proposed charter school 1) did not demonstrate sustainable support, 2) did not demonstrate financial stability or the ability to establish sound financial management systems by the time the school began operations, 3) was not sufficient in presenting a program that would provide comprehensive instructional programming, and 4) negative impacts to the education of district students outweigh the value of the charter school, the Superintendent recommends that the Board disapprove the charter proposal for the College of Knowledge.

Upon Board action, this report will constitute formal written notice to the applicant of the Board's decision and the reasons for denial.

Copies of the major section of the charter proposal and financial projections were provided at your January 19, 2011 meeting.

No letters of support were provided as part of the charter school proposal.

3. **Disapprove the Public Charter School Application from International School of Modern Technology** (Staff: Caroline Passerotti and Brad New)

**BACKGROUND**

The 1999 Oregon Legislature passed legislation requiring local school boards to accept applications from private non-profit corporations who wish to establish charter schools. The legislation, which has been incorporated into statute in ORS 338.005 through ORS 338.185, establishes the criteria school boards must use to evaluate the applications and the conditions under which they are to be funded.

In accordance with the law and school board policy, International School of Modern Technology (ISMT) submitted a charter school application to the district on November 15, 2010. Within 15 business days of receipt of the application, on December 7, 2010, staff notified the applicant that the proposal was considered to be complete.

On January 19, 2011, a public hearing on the provisions of the proposal was held, as required under ORS 338.055 (1) and School Board Policy LBE, Public Charter Schools.

Staff has reviewed the application in detail and received clarifications from the applicant, as required. The superintendent and chief academic officer have also reviewed the application against the criteria and requirements in School Board Policy LBE, Public Charter Schools.

**DISCUSSION**

1. Rationale: Findings have been developed in response to Criteria for the Consideration of a Charter School Application (School Board Policy LBE):

(1) The demonstrated sustainable support for the public charter school by teachers, parents, students, and other community members, including comments received at the required public hearing.

Finding 1: The ISMT has not met this criterion.

Discussion: Oregon's charter school statute requires that the applicant demonstrate that the proposed charter school has sustainable support by teachers, parents, students and other community members. While the law does not establish specific benchmarks for demonstrating sustainable support, it does specifically include, but is not limited to, comments received at the public hearing.

The ISMT applicants have included in their application evidence of support from parents/students, community members, and current and former educators, including references to the following items:

- Nine member board of directors including five Eugene area residents and four from outside the Eugene area.
- The application listed two parents, not also in the board of directors as "supporting the mission and vision" of the school.

- The application includes one letter supporting the concept of the proposed charter school from the Director of Administrator Licensure Programs at the University of Oregon, College of Education.
- The application includes eight “Statement(s) of Community Support and Partnerships” from community partners supporting the “educational vision” of the proposed charter school.
- Results from a survey completed by approximately 135 people, indicating conceptual support for a school like the ISMT; results reported included 18.5% of 135 responses indicated a “non-binding intent to enroll student.”

While the referenced materials demonstrate a level of conceptual support of the program, it does not appear to include direct interest from families of children seeking to enroll students in the school or involvement of parents and community members in the development of the instructional program or in the creation of a sense of need, calling for a program like the ISMT. We question whether such conceptual support, while important, would meet the statutory requirement of “demonstrated, sustainable support” and more importantly, would result in the personal, student-focused parental or other involved adult support critical to the success of a new charter school.

Members of the ISMT development team attended the public hearing held on January 19, 2011. An ISMT representative and seven individuals, including members of the ISMT development team and board, provided testimony to the school board on the proposed charter school. Speakers highlighted their desire to see a culturally competent, science and technology focused program to attract and instruct disenfranchised youth. Two speakers described themselves as parents of school aged children.

While clearly establishing the support from those actively involved with the development of the ISMT, the application and the testimony at the public hearing provides limited evidence of support from those students and parents the program would serve. We would conclude that at this time the application does not demonstrate the sustainable support necessary to recommend approval.

- (2) The demonstrated financial stability of the public charter school, including the demonstrated ability of the charter school to have a sound financial management system in place at the time the school begins operating.

Finding 2: There is some evidence that ISMT would be able to operate with financial stability, based on the financial projections it has submitted and the funding level required in district board policy. It is unclear whether ISMT would be able to have a sound financial management system in place at the time the school begins operations.

Discussion:

Funding Level. District Board Policy LBE requires that the district provide the minimum level of funding established by statute for all students without a disability. This represents 80% of the State General Purpose Grant per student for students enrolled in kindergarten through grade 8 and 95% of the State General Purpose Grant per student for students enrolled in grades 9 through 12.

In addition to the financial projections developed as part of their charter proposals, charter organizers were asked to submit additional projections to reflect the lower level of state funding the district anticipates as a result of Governor Kitzhaber's draft budget for K-12 education in the 2011-13 biennium. Assuming General Purpose Grant amounts per ADMw of \$5,742 in 2011-12 and \$5,910 in 2012-13, charter school payments would be as follows:

	<u>2011-12</u>	<u>2012-13</u>
Grades K-8	$\$5,742 \times 80\% = \$4,594$	$\$5,910 \times 80\% = \$4,728$
Grades 9-12	$\$5,742 \times 95\% = \$5,455$	$\$5,910 \times 95\% = \$5,615$

ISMT has received a federal charter school planning grant in the amount of \$55,000 to support pre-opening activities. The district is serving as fiscal agent for the planning grant. Should the district approve their charter application, charter organizers would be eligible to receive a federal implementation grant of up to \$225,000, for which they would serve as their own fiscal agent. Proceeds can be used for curriculum and professional development, accounting fees, attorney fees for start-up expenses, minor building renovations, and administrative fees. Construction or purchase of facilities is not permitted with these funds.

Financial Stability. ISMT provided three-year financial projections based on the state funding assumptions described above, in which they showed positive net income from operations, positive cash balance and positive unreserved ending fund balance.

Organizers were responsive to requests for additional information and clarification by district staff. Follow-up questions were asked by a consultant, and it appears the consultant prepared the responses to requests for financial projections that reflected revised state funding assumptions. The financial projections do not include costs for a consultant after start-up; however, the implementation grant could be used for that purpose on a short-term basis in the event that the charter proposal is approved.

Revenue projections were based on state funding and did not rely on additional fundraising dollars. State funding depended upon projections of relatively high enrollment for a start-up charter school: 220 K-9 students in Year 1, 260 K-12 students in Year 2, and 290 K-12 students in Year 3. Whether the proposed charter school could achieve this level of enrollment is uncertain, as two district-sponsored charter schools which have been in operation for over ten years have been unable to achieve enrollment of 220 students.

Organizers presented financial projections based on an alternate enrollment scenario of 140 students (130 ADM) in the first year of operation. They showed how staffing would be realigned to establish financial stability at the lower enrollment. Financial projections based on 140 students and the requested alternate state funding amounts were not provided.

Expenditure projections appeared to be reasonable with teacher salaries slightly lower than the amount that the district pays beginning teachers.

Sound Financial Management System. Under Board Policy LBE, “financial management systems” consist of accounting and financial record keeping procedures, including financial reporting, cash management and investment practices, incorporating appropriate segregation of duties.

ISMT addressed each of these areas; however, it was unclear how the segregation of duties was adequate for cash management, financial reporting and payroll given proposed staffing levels. Responses to follow-up questions did not provide sufficient assurance that organizers could independently implement sound financial management systems in time for the proposed charter school to begin operations.

- (3) The capability of the applicant, in terms of support and planning, to specifically provide the comprehensive instructional programs to students, as outlined in its proposal.

Finding 3: The proposal is not sufficient in presenting a program that will provide comprehensive instructional programming.

Discussion: The proposal does not sufficiently demonstrate how its program design translates into a comprehensive program upon implementation. Further, adequate consideration has not been given to the complexity and challenge of creating a comprehensive school program for smaller numbers of students, especially relating to the high school curriculum and current high school graduation requirements. In regard to expanding school choices to 4J students, the district already provides an Arts and Technology Academy (K-8) and a School of IDEAS at North Eugene High School that provide excellent programming for students who are seeking project-based instruction that leads to strong post-secondary options in Science, Technology, Engineering and Mathematics. Likewise, each high school in 4J offers a robust science, math and technology program that is integrated into the comprehensive high school program.

- (4) The capability of the applicant, in terms of support and planning, to specifically provide the comprehensive instructional programs to students identified by the applicant as academically low achieving.

Finding 4: The proposal does not demonstrate the ability to provide comprehensive instructional programming to students identified as academically low achieving.

Discussion: The proposal does not demonstrate the ability of the school to respond to the needs of students who enter the school at various achievement levels. Inconsistencies in program design and proposed practice do not respond adequately to the needs of a broad range of students.

- (5) The extent to which the proposal adequately addresses the requirements of the proposal process.

Finding 5: ISMT has met this requirement.

Discussion: While the charter proposal adequately addresses this requirement, a couple of items merit attention.

Response #11 states that the International School of Modern Technology is evaluating potential sites. Organizers plan to select a site and negotiate a lease by March 2011.

Response #31 states that the proposed charter school will abide by district board policy and quotes the policy for transporting students attending regular district schools.

District Board Policy LBE (Public Charter Schools) states that public charter schools shall comply with the transportation requirements for students who participate in district-sponsored alternative programs and who transfer between neighborhood schools.

The district maintains that it is not responsible for providing transportation by bus or otherwise of any students to district-sponsored charter schools. However, charter school students are allowed to ride on district buses to and from the charter school on existing district routes, to the extent seats are available for such students.

(6) Whether the value of the public charter school is outweighed by any directly identifiable, significant, and adverse impact on the quality of the public education of students residing within District 4J. A “directly identifiable, significant and adverse impact” is defined as the impact of adverse loss or reduction in staff, student, program, or funds that may reduce the quality of existing district educational programs. This may include, but not be limited to, the following current data as compared to similar data from preceding years:

- (a) Student enrollment;
- (b) Student teacher ratio;
- (c) Staffing with appropriately licensed or endorsed personnel;
- (d) Student learning and performance;
- (e) Specialty programs or activities such as music, physical education, foreign language, talented and gifted and English Language Learners;
- (f) Revenue;
- (g) Expenditures for maintenance and upkeep of district facilities.

**Finding 6:** The value of the charter school is outweighed by adverse impacts on the quality of public education of 4J students.

Discussion:

**Value:** It is not possible to calculate the “value” of the proposed charter school with accuracy since such a value must at this point in the process be based primarily on assumptions and predictions. However, the statutory language establishes a balancing test, weighing the “value” of a proposed charter school with its adverse impact to the district’s other students. With that in mind, the value of the proposed International School of Modern Technology may be considered both from the perspective of the value to the ISMT developers and potential students and parents, as well as to the entire district.

The value to the ISMT developers was clearly shown through the materials submitted in the application and in the testimony provided at the public hearing.

From the perspective of the school district, the value of the ISMT is unclear. Without a clearly defined group of interested and involved students and parents actively supporting the development of a charter school, the value to the district must be evaluated over the entire district. As stated above, the district already has two schools collectively addressing students in kindergarten through grade 12 that provide excellent programming for students who are seeking project-based instruction that leads to strong post-secondary options in Science, Technology, Engineering and Mathematics. From that perspective, the value of the ISMT to the school district is much diluted when viewed across the school district and is less significant to the district.

The district shares the applicant's interest in better serving students in the achievement gap. However, because the proposal does not clearly demonstrate how the school would respond to the needs of students entering the school at various achievement levels, it is unclear how they would contribute to the district's ability to serve students in need of additional support.

**Impact:** In response to the impact of the Great Recession on state and local revenues and continued declines in district enrollment, Lane County School District 4J has increased school staffing ratios, cut school days, reduced central support services, negotiated pay freezes and furlough days for employees, and used millions of dollars of reserves to achieve a balanced operating budget. Because further declines in revenues and increases in expenditures are projected, additional general fund budget reductions ranging from \$22 million for \$28 million are anticipated for the 2011-12 school year. To address the Board's goal of achieving a sustainable budget, the Superintendent is recommending a broad range of budget reductions for 2011-12 which include eliminating 56 to 84 teaching positions, cutting 43 to 62 FTE classified and administrative staff, negotiating 9 to 13 furlough days (including six school days) and pay freezes for employees, closing four elementary schools, and using additional reserves.

Further declines in student enrollment from the approval of a new charter school would only serve to magnify the negative impact of these reductions on the quality of instruction for remaining district students. Savings from the reduction of teacher and supply budgets allocated on a per student basis combined with state funding retained by the district (20% for students in kindergarten through grade 8 and 95% for students in grades 9 through 12) are not sufficient to offset the loss of state funding to the district.

Assuming that the charter school enrolls 220 ADM in its first year and that 85% of charter school students are district residents (similar to Ridgeline Montessori Public Charter School and The Village School), staff estimates that approving this charter school could result in the loss of 179 ADM to the district in 2011-12. The net negative monetary impact would be approximately \$250,000.

Because charter school organizers have not yet identified a location for the International School of Modern Technology and a breakdown of enrollment by grade is not available, it is difficult to anticipate the direct impact of the proposed charter school on the education of district students.

The district incurs additional costs to address the needs of special education students who attend charter schools. The district receives no extra state revenue for special education students residing within district boundaries, yet additional staff must be assigned to the charter school site. Students who previously attended district schools would already be included in the district's student count for "second weight" funding purposes. Students newly enrolled in the charter school would not bring more state resources since the district special education population already exceeds the statutory cap of 11% of resident average daily membership (ADMr). Should the charter school organize its school year differently than the district school calendar included in the contract with the Eugene Education Association, licensed staff serving special education students at the charter school must also be paid on an extended contract to work the additional days that the charter school offers classes.

In the current climate of budget reductions, these higher costs require reductions to budgets for other student services. The extent of the negative impact to the district general fund budget would depend on the size of the special education population. The average percentage of special education students currently ranges from 10% to 13%. If it is expected that ISMT's target population is "achievement gap" students, then the higher percentage or 13% of the projected enrollment could be expected to require special education services. Under this assumption, it would cost the district an additional \$45,000 to provide special education services to 4J students attending the proposed charter school, not including travel time. Because ISMT is proposing a year-round school calendar, the cost of additional extended contract days would be required. At this time, it is difficult to estimate that cost.

The approval of International School of Modern Technology would increase the requirements for oversight and administration by central staff. This would result in the dilution of support provided to existing district schools and possibly greater workload for school staff, potentially negatively impacting students in those schools.

**Conclusion:** Sponsoring a new public charter school at this time would further erode the district's funding base for existing district programs, negatively impacting the quality of instruction for students in those programs. The net negative impact of reductions in state funding relative to lower teacher and supply budgets and higher costs associated with providing special education services would directly result in additional general fund budget reductions for the district and diminishing of instructional offerings to students. Negative impacts to the education of remaining district students in this time of severe budget reductions outweigh the unclear value that ISMT would contribute to the district.

(7) Whether there are arrangements for any necessary special education and related services for children with disabilities.

Finding 7: ISMT has met this requirement.

Discussion: Adequate understanding of responsibilities for special education services has been demonstrated.

## 2. Options and Alternatives:

Should the Board disapprove an application, written notice of this action will be provided to the applicant within 30 days of the public hearing, stating the reasons for disapproval and suggesting remedial measures, as required in Board Policy LBE.

The applicant may submit an amended proposal to the superintendent within 30 days of the disapproval. The Board is required by statute and board policy to act on the amended proposal within 20 days of receiving it.

If the amended proposal is not approved by the Board, the applicant may appeal the decision of the School District Board to the State Board of Education, pursuant to ORS 338.055(4). As provided in ORS 338.075, the State Board will attempt to mediate a resolution between the district and the applicant. If a mediated resolution is not achieved, the State Board may either reject the proposal, upholding the District Board decision, or sponsor the public charter school. The opening of the charter school under State Board sponsorship would be expected to be delayed by one year.

## 3. Budget/Resource Implications:

### District Sponsorship

See the Discussion under (6) above for the impact of Board approval of a charter school.

### State Board of Education Sponsorship

Should the Board disapprove a charter application and it is successful in its appeal to the State Board of Education, the district must pay State School Fund grant amounts to the charter school at a higher rate than if the district were sponsoring the charter school. For students in kindergarten through grade 8, a minimum of 90% of the General Purpose Grant per ADMw (average daily membership, weighted) would be paid to the charter school, as opposed to the 80% minimum that applies to school districts. For students in grades 9 through 12, the 95% minimum remains the same.

In addition, one half of the General Purpose Grant per ADMw retained by the district must be paid to the Department of Education for all charter school students. Under district sponsorship, one half of the General Purpose Grant per ADMw retained by the district must only be paid to the home district of charter school students whose parents reside within the boundaries of another district.

## 4. Board and Superintendent Goals

The charter school recommendation addresses board goals of increasing achievement for all students and closing the achievement gap and also providing prudent stewardship of district resources to best support student success, educational equity and choice. In addition, it reflects the engagement of district stakeholders in supporting our students and schools.

## RECOMMENDATION

Based on findings that 1) the proposed charter school did not demonstrate sustainable support, 2) the proposal was not sufficient in presenting a program that would provide comprehensive instructional programming for a K-12 school, 3) negative impacts to the education of district students outweigh the unclear value of the charter school and 4) evidence is incomplete that the charter school would be able to operate with financial stability and it remains unclear whether the proposed charter school would be able to have a sound financial management system in place by the time the school would begin operating, the Superintendent recommends that the Board disapprove the charter proposal for the International School of Modern Technology.

Upon Board action, this report will constitute formal written notice to the applicant of the Board's decision and the reasons for denial.

Copies of the major section of the charter proposal and financial projections were provided at your January 19, 2011 meeting.

Copies of letters of support which were provided as part of the charter school proposal were included in your January 25, 2011 board packet.

#### **4. Approve the Superintendent's Sustainable Budget Final Recommendations or Alternate Options, Including School Closure/Consolidation Proposals**

### **BACKGROUND**

The board has a goal to *"provide prudent stewardship of district resources to best support student success, educational equity and choice."* The goal states that *"the board will direct district resources to support the instructional core and to provide educational equity and choice while maximizing administrative and operational efficiency with a sustainable budget. The district must also respond to declining enrollment, regional enrollment patterns, a student population with more diverse needs, uncertain revenue streams and escalating costs."*

The board's revised sustainable budget goal provides that ....

*By 2014-15, the district will implement a sustainable budget that:*

- *maintains reserves at or above board targets,*
- *minimizes the use of one-time funds for ongoing expenses,*
- *optimizes the use of short-term resources to improve student achievement, and*
- *increases operational efficiency while reducing long-term capital needs.*

The superintendent's goal for achieving the board's goal provides that I will *"develop strategy options for achieving the board's sustainable budget goal and present a proposal to the board and Budget Committee by February 2011."*

At the November 3, 2010 board meeting, I presented my preliminary recommendations for achieving a sustainable budget, including school closure and/or consolidation proposals. At the December 8, 2010 board meeting, I presented my revised recommendations based on board discussion, public comments and discussions with the superintendent's staff. The revised recommendations offered a modified strategy for achieving a sustainable budget that

balances operating costs with projected revenues for the long-term. The district's five-year financial forecast shows a 15-20% operating deficit for 2011-12 and smaller but ongoing deficits in future years due to increasing costs and decreasing resources.

The revised recommendations were based upon some modified assumptions that included:

1. Revised financial assumptions. The target for decreasing expenses and increasing revenues was changed from \$30 million to \$22 million based on an assumption that state funding will not decrease.
2. Adjusted target date and a three-year plan setting a course for change. The board adjusted its target date for achieving a sustainable budget from 2012-13 to 2014-15.
3. More study on grade reconfiguration. Establishing a task force to study the issue of grade reconfiguration and recommend whether changes should be implemented for 2012-13 or 2013-14.
4. Retaining more teachers and preserving more jobs. With a lower financial target, I was able to propose a smaller decrease in staffing for 2011-12. This is also the expressed intent of the governor in his budget proposal for K-12 funding where he frontloads the first year of the biennium.
5. School closures and consolidations are necessary. I proposed closing four schools in 2011-12 and one more in 2012-13. I also proposed taking another look at language immersion and alternative schools in 2011-12.
6. Seeking out new sources of revenue. I proposed a \$130 million bond measure for the May ballot and working with others, including the City of Eugene, to explore additional options for new revenue sources. The City Council is currently considering whether to refer a City income tax to the voters in May to help schools avoid some of the proposed cuts in staff and school days.

I proposed as part of my revised recommendations that the 2011-12 budget balancing scenario be shaped as:

- 50% ongoing reductions: \$11 million.
- 25% reserves/one-time funds: \$5.5 million.
- 25% compensation-related adjustments: \$5.5 million.

## **DISCUSSION**

The stakeholder input process has played out over the past several months as staff, parents and the community have had the opportunity to weigh in with their opinions and viewpoints regarding the various scenarios presented in the sustainable budget process. Through the course of board work sessions and public hearings, meetings, emails and other correspondence and communication received by the board, hundreds of people have expressed their concerns and objections to the recommendations as initially presented or revised. While many do not agree with the recommendations, the public discourse has demonstrated the process is working as intended. And while in the end not everyone will be happy with the outcomes, I do believe that the process has provided opportunity for many voices and differing opinions to be heard.

### Decision Making

It's important to remember that many of these recommendations are not entirely within the board's control. As previously discussed, the actions proposed fall into the following decision categories for the board:

- a) Decisions That Are Within the Control of the Board. The board can unilaterally make the decisions that fall within this category without having to consult, negotiate or depend on others to make it happen. The board may consider input and feedback from various stakeholders, but it can ultimately make the decision. The decisions that will be most impactful on the overall budget picture will be those that are ongoing and sustainable, such as reducing staff and eliminating programs or services; changing the staffing ratios resulting in more teacher layoffs; closing and consolidating schools. The board could also elect to spend down reserves or use other one-time sources of money to buy more time. As mentioned earlier, since these would be unsustainable sources of funds it would require deeper cuts in subsequent years.
- b) Decisions That Require Engagement or Negotiations With Others. These are decisions that typically cannot be made unilaterally by the board and would require the negotiation, engagement or consultation with others in order for a decision to be made and implemented. Primarily, these recommendations would require negotiations and agreement with the labor organizations to implement. These include both ongoing strategies such as salary freezes or reductions in compensation or benefits, or more temporary measures such as furlough days and reducing the school year with an expectation that some or all could be restored in better times.
- c) Decisions That the Board Can Influence But Not Control the Outcome. The board can try to achieve a certain outcome but must rely on decisions of others for it to happen. While the board can make decisions about when and what to put on the ballot as a bond measure, for example, they would have to work with stakeholders and rely on voters to ensure a successful election. In the case of other revenue matters, such as a City local income tax, the board would have to convince the City Council and voters to take such a step to benefit the school district.

At the work session on the revised recommendations on January 5, 2011 the board provided some additional guidance. The additional feedback from staff, parents and community, has helped shape these final recommendations. When then Governor-elect Kitzhaber released his draft budget proposal for K-12 for the 2011-13 biennium, he indicated that \$5.357 billion would be the starting point for the State School Fund allocation. In his draft budget message, Dr. Kitzhaber said: "The question is not *'what are we going to cut'* but rather *'how do we take the revenue we know we have and invest it differently going forward to create a solid foundation on which to build our future?'*" The challenge for us is that we will have no truly accurate picture of what the final budget number will be for the State until later in the spring after final action by the legislature.

At the January 12 presentation, I presented a comparison of the final recommended strategy options with the revised recommendations. Also included were any alternate scenarios requested by the board that could be considered in lieu of those recommended by the superintendent. In some cases there were no changes from

the preliminary recommendations, but in others there were some fairly significant revisions from what was recommended in the preliminary recommendations. As a result of some of the changes in assumptions, the major areas in which substantial revisions occurred were staff and program reductions; staffing ratios; closure and consolidation (reconfiguration); school/workday reductions (furloughs); and other compensation-related adjustments. Finally, as a result of the public hearing on January 19, the work session and board meeting on January 25, and the governor's recently released proposed budget, I have made some modifications to the final recommendations. As we walk through each of the 10 strategy options on February 2, I will present either a final recommendation or a revised final recommendation that reflects my updated information, as well as any alternate options that the board has asked to be considered.

### **Financial Assumptions.**

In these final recommended scenarios, I've tried to identify the disinvestment strategies that would provide for ongoing and sustainable savings, but still as best we can preserve and maintain a strong instructional program. Still underlying these strategies is the assumption that we will have to transform the system by doing some things dramatically different in the future. I still identify some one-time or shorter-term strategies that can be used to help us bridge some of our educational programs and services into the future, while seeking to find longer-term solutions that may require a little more time to develop and implement.

The Final Recommendations include the revised financial assumption of a \$22 million target, and an alternate option with a \$26 million target, for 2011-12 that provides for a combination of a) ongoing and sustainable reductions; and, b) one-time and short-term "bridging" strategies. These final scenarios look at each of the strategy option areas previously identified and propose reduction scenarios within each, where appropriate.

The preliminary recommendations were based on a target of \$30 million. The revised recommendations assumed "status quo" funding from the State for 2011-12 and 2012-13, or about \$5.7 billion for the biennium. For us, this translated into a shortfall of about \$22 million at status quo, or 15% rather than 20%. We then received information that the governor would be proposing a K-12 budget of about \$5.4 billion, which would have meant a shortfall of around \$28 million. In response, I then developed an alternate final proposal for a \$26 million shortfall scenario. We now know what the governor's proposed K-12 budget will be for the next biennium, which he characterizes as establishing "a stable funding floor for Oregon's K-12 public school system." It provides \$5.56 billion for the biennium. However, 52% (\$2.89 billion) will be distributed during the first school year of the biennium, equivalent to a \$5.78 billion budget for school funding. The effect, he says is to provide an increase in state funding for the 2011-12 school year. Front-loading is intended to provide a year to "***find cost-savings through consolidation and other efficiencies to maintain the level of classroom support during the 2012-13 school year***" (emphasis mine).

Since the governor's budget proposal was released, additional information has been provided by Paul Warner of the Legislative Revenue Office at the COSA School Funding Coalition meeting on January 27. Mr. Warner reviewed the current

economic conditions affecting the state. Some of the key points he made regarding economic conditions were the following:

- Oregon is experiencing a very slow recovery from the depths of the 2007-09 recession.
- In December, payroll employment declined by 1,800 from the previous month on a seasonally adjusted basis.
- The state's unemployment rate stands at 10.5% to 10.7% for 14 months.
- Local education employment in December was down 2,900 from December 2009.
- Oregon's overall employment is 16,300 less than it was 10 years ago.

In terms of the economic outlook for Oregon, Mr. Warner provided the following observations:

- Despite the very low level of economic activity, cyclical indicators point to modest recovery with some possibility of mild acceleration.
- Employment is expected to grow 1.4% nationally in 2011, with a similar proportional gain for Oregon. This is insufficient to make significant headway against the high unemployment rate in the U.S. and Oregon.
- Passage of the federal tax package in December is expected to add short-term stimulus to the economy and stimulate overall demand and job growth. However, it will add to the long-term deficit problems and will eventually force greater fiscal tightening in the long run.

Mr. Warner used this background information to outline his review of the General Fund/Lottery Revenue situation for the state. He shared the following related to the state's budget situation:

- The December forecast was relatively unchanged for 2009-11, but it reduced the GF/Lottery estimate by \$267 million in 2011-13, \$715 million in 2013-15, and \$1.152 billion in 2015-17.
- Overall personal income taxes were slightly above projections. Corporate revenue was lower than projected, increasing the possibility that the corporate kicker will be removed from the upcoming forecast.
- Based on nearly complete 2009 tax returns, the Measure 66 revenue estimate for 2009-11 was reduced to \$333 million, compared to the estimate of \$504 million used for the close of the 2009 regular session. The estimate for Measure 67 remains unchanged at \$261 million.

Key revenue and school finance issues that Mr. Warner believes will get some major discussion as part of the 2011 legislative session include:

- Rebuilding state reserves and kicker reform
- Tax credit sunsets, including the Business Energy Tax Credit. He shared that the cost of extending the tax credit in 2011-13 is \$38.4 million, but for 2015-17 would be \$324.6 million.
- Local Option property tax modifications to address issues of compression
- PERS reforms
- Overall budget and budget reforms

With regard to the governor's budget, Mr. Warner noted there are still two additional forecasts to be released that will affect the legislature's final budget decision. The March forecast will be released on February 15, and the May forecast, which is the

final one for the legislature to base its state budget decision upon, will be presented on May 15. Mr. Warner and Kent Hunsaker of COSA recommended that school districts use at least a 50/50 split for building their budgets, reminding districts that for the past few years, the second year of the biennium has resulted in less dollars than the first year of the biennium. Mr. Warner warned that he would be “cautious about assuming any additional dollars for the second year of the biennium.” Mr. Hunsaker reminded superintendents that the governor’s budget is the starting point for the legislature, but that they have little in reserves to fall back on.

As a result of this most recent information, I have modified some of my final recommendations to reflect, to the extent I believe possible, the governor’s numbers and his intent, as well as the observation from Mr. Warner in the Legislative Revenue Office. We still will need to make significant reductions for 2011-12 and in each of the subsequent years make further reductions, find additional revenue or some combination of the two. That is, the more we utilize reserves or one-time strategies for 2011-12 solutions, the more we will have to make up for in 2012-13 through additional cuts or increased revenue.

### **Potential City Income Tax**

Currently, the Eugene City Council is considering whether or not to refer to voters an income tax measure that would specifically support the Eugene and Bethel school districts. At this time, the amount such a tax would raise if approved is uncertain. The City Council has asked for the amount the district would need to reduce or eliminate furlough days and keep average class size from increasing to the extent possible. If the tax were to be used only for the purpose of retaining teachers and reducing furlough days, my final recommendations include \$8.5 million to \$12 million of reductions in those areas. In order to achieve that revenue level, the tax rate would have to be higher to account for income that is not subject to the tax and uncollected taxes. I believe that a tax should be structured that would net the district \$10-12 million.

If the tax is approved in either May or November 2011, the first tax receipts received by the district would be in May 2012. The agency administering Multnomah County’s income tax has indicated that approximately 50-60% of the taxes are received in May with the remainder received in October when extensions are filed. Depending on the items added back to the 2011-12 budget, if any, the district may have to issue Tax Anticipation Notes due to the timing of the receipt of funds.

## **RECOMMENDATIONS**

These Final Recommendations represent a melding of the initial preliminary recommendations, the revised recommendations, and some alternate options that have been developed since the board’s work session of January 5 and subsequent meetings.

**Strategy Options.** The following represent the final recommended strategy options. In some cases, there are also alternate scenarios either as requested by the board, or added by staff, that could be considered in lieu of my final recommendations. In most cases there are no significant changes from those proposed on January 12, but in others there are some revisions from what was recommended earlier, and as a result of the previous \$26 million assumption some changed strategy options.

The final proposed target for 2011-12 now falls between the \$26 million scenario and the previously revised target of \$22 million. I think somewhere near \$24 million will need to be where we end up. The strategy goal is to achieve a balanced approach that still includes 50% ongoing or sustainable strategies through staff reductions, ratio changes, and service/program reductions of at least \$12 million; about 25% through use of one-time dollars from reserves or other short-term sources for around \$6 million; and another 25% through compensation-related savings from a combination of fewer days (furloughs) and less in salary/benefits for around \$6 million.

The strategy options I am recommending, and any alternate options, are presented below for each of the major option areas. I would propose the board vote on the recommendation or alternate option/recommendation in each area first and then at the end consider a vote on the entire strategy package as a whole. It is important to note that this is not a decision on the 2011-12 budget, but rather action on a strategy direction that will help drive the budget choices over the next few years. It will drive the budget choices we make as we move forward in the budget development process, and work with staff, associations, and the budget committee and legislature to come up with a final budget for 2011-12.

#### **1. Reduce Staffing/Services & Programs:**

One of the major benefits of revising the forecast downward was that it allowed me to propose a smaller increase in the staffing ratio for next year. I initially suggested two options: a 2 increase at elementary and a 3 for secondary; or a 3 at elementary and 4 at secondary. This “either/or” approach would have required schools to develop two staffing plans. In the final recommendation, I proposed an across-the-board ratio change of 2. However, because that change depends on a number of unknown factors coming together in a timely fashion, which at this point cannot be depended upon, I am also proposing that schools base their initial staffing plan on a ratio change of 4. Which staffing ratio increase is implemented will depend on how the other scenarios play out through the budget and negotiations processes. In the alternate scenario, the staffing ratio is increased overall by 4 predicated on a \$26 million scenario, and could be differentiated by either level or on the basis of student/school need. Long-term, this adjustment still could mean that we have to increase the staffing ratio again for the following year (2012-13), unless something changes. Other recommendations related to administrative and classified reductions would be made at the higher level to compensate for unknowns related to the bond measure, compensation and furlough adjustments, and any potential additional revenue. A second alternate option to the final recommendation could be a staffing ratio change of 2.5 rather than 2 across the board to provide a little more conservative approach for anticipating other kinds of reductions that might not materialize, including the possible additional shortfall in 2012-13 if additional revenue is not realized.

#### **REVISED FINAL RECOMMENDATION:**

##### **2011-12**

- Reduce administrative and classified staff by 10% (62 fte) – \$3.5M
  - including restructure and consolidate Central Office departments, reduce administration
- Change staffing ratio by 2 (45 fte @ \$3.8 M) and/or 4 (84 fte @ \$7M)

- Eliminate or reduce teachers on special assignment and staff development specialists - \$0.5M
- Cost/Savings Target: \$7.8 to \$11M

2012-13

- TBD

2013-14

- TBD

*Alternate Option:*

- *Change staffing ratio by 2.5 = 54 fte @ \$4.6M*
- *Eliminate or reduce teachers on special assignment and staff development specialists - \$0.25M (would only cut half of the originally proposed amount)*

**Alternate Recommendation:**

2011-12

- Reduce admin and classified staff by 7% (43 fte) - \$2.6M
  - Including restructure and consolidate Central Office departments, reduce administration
- Change staffing ratio by range of 2/3, or 3/4\* (e.g.; 3@HS; 3@MS; 2@ES) = 56-75 fte @ \$4.6 to \$6.3M
- Eliminate or reduce teachers on special assignment and staff development specialists - \$0.5M
- Cost/Savings Target: \$7.7–\$9.4M

**Impacts/Assumptions:**

1. Reduced services and programs to support schools. Determinations regarding service/program elimination or reduction based on district values and priorities, and as part of budget development process.
2. Reorganization and restructuring of central administration
3. Larger class sizes and fewer specialists
1. Ability to negotiate furlough days and other compensation related adjustments

**2. Fewer School/Work Days**

For 2009-10, teachers took 7 furlough days, classified staff took 3 furlough days and used insurance reserves, and administrators agreed to no cost of living. These concessions equated to 3-3.25% of employee salary/benefits. For 2010-11, teachers and classified staff agreed to 7 furlough days and administrators agreed to 9 furlough days. Many employees' salaries were reduced from 2009-10 to 2010-11 due to the furlough days. Under the \$26 million alternate scenario option, I proposed an additional furlough day for another \$0.5 million. The final recommendation assumes the furlough days proposed in the revised recommendations can be achieved through negotiations. If they are attained before the staffing cuts are implemented, the lower staffing ratio change of 2 or 2.5 will be implemented for school staffing and the lower level cuts in administration and classified staffing could be implemented.

**FINAL RECOMMENDATION:**

2011-12

- 9-12 Furlough Days (6 fewer school days) – one per month based on work year, e.g. school-based staff reduced 9/10 days
- Cost/Savings Target: \$4.0M

### 2012-13

- Continue 9-12 Furlough Days (6 fewer school days) – one per month based on work year
- Consider 4-day work (32 hrs) and school weeks if necessary
- Cost/Savings Target: \$4.0M

### 2013-14

- Continue 9-12 Furlough Days (6 fewer school days) – one per month based on work year
- Continue 4-day work (32 hrs) and school weeks if necessary
- Cost/Savings Target: \$4.0M

### **Alternate Recommendation:**

#### 2011-12

- 10-13 Furlough Days (6 fewer school days) – one per month based on work year plus one additional day
- Cost/Savings Target: \$4.5M

#### 2012-13

- Continue 10-13 Furlough Days (6 fewer school days) – one per month based on work year plus one additional day
- Consider 4-day work (32 hrs) and school weeks if necessary
- Cost/Savings Target: \$4.5M

#### 2013-14

- Continue 10-13 Furlough Days (6 fewer school days) – one per month based on work year plus one additional day
- Continue 4-day work (32 hrs) and school weeks if necessary
- Cost/Savings Target: \$4.5M

### **Impacts/Assumptions:**

1. All employees would take furlough days based on their work year: 12 month=12 days; 11 month=11 days; 10 month=10 days; 9 months= 9 days. One additional day would be added under the \$26 million assumption. Assumption is these are temporary and the days could be added back to work year when financial picture improves.
2. Shortened school year and fewer paid workdays with reduced pay for all employees.
3. Presumes ability to negotiate reduced workdays or furloughs with labor organizations.

### **3. School Closures/Consolidations**

Closure of Coburg, Crest Drive, Twin Oaks and Parker will result in savings from having four fewer schools with their ongoing operational costs. While consolidation of Meadowlark with Willagillespie will not necessarily save any dollars, even under the staffing ratio increase of 2, Meadowlark would lose close to 1.5 positions (full time equivalent/FTE) or over 17%. Under a scenario with a ratio change of 4, they would lose close to 2 fte teacher positions or 23%. After consolidation with Willagillespie, the combined school would have far more flexibility in both staffing resources and facilities.

The final recommendation anticipates continuation of the language immersion schools for now as K-5 elementary schools. I've also suggested taking another look

at non-language alternative schools such as Corridor and Family School in 2011-12, to determine their future in the district and whether they remain distinctive in their approach as provided in the board's alternative school review criteria. Although we have closed or merged some alternative schools over the last few years, we need to periodically explore this question as district enrollment grows smaller. The board also needs to reconsider language immersion alternative schools for the longer term and examine whether there is a way to provide a second-language experience in all of our neighborhood elementary schools. These recommendations have generated suggestions that if we are going to reconsider language immersion or other alternative schools in the near future, should we not hold off on moving Charlemagne while we work through those issues for the future. I find some merit in that argument, as well as understand the perception that moving Charlemagne into Parker appears to be closing Parker to make space for the language immersion. For that reason, I am providing an additional alternate option that involves leaving Charlemagne where it is until further decisions are made about the status of language immersion and other alternative schools.

The other alternate scenario option calls for closure of Adams Elementary School and keeping open both Parker and Crest Drive as neighborhood schools. Under this scenario, Charlemagne would be relocated to the Adams building instead of to Parker.

**FINAL RECOMMENDATION:**

2011-12

- Close Coburg, Crest Drive and Parker in 2011
- Consolidate Meadowlark at Willagillespie
- Move Charlemagne K-5 to Parker
- Cost/Savings Target: \$1M

2012-13

- Close Twin Oaks
- If Bond Measure passes, consolidate Twin Oaks with McCornack after addition
- Cost/Savings Target: \$0.3M

2013-14

- Possible closure/merger of non-language alternative schools with neighborhood schools
- Cost/Savings Target: TBD

*Alternate Option:*

- *Leave Charlemagne at Fox Hollow for the time being and determine its status as part of a review of alternative/language immersion schools in 2011-12. As part of this option, staff would consider relocating the Opportunity Center and other tenants at the Dunn site into the Parker building.*

**Alternate Recommendation:**

2011-12

- Close Coburg and Adams in 2011 (leaves Parker & Crest Drive open)
- Consolidate Meadowlark at Willagillespie
- Move Charlemagne K-5 to Adams
- Cost/Savings Target: \$0.5M, requires additional \$0.5M of ongoing reductions to be identified

### 2012-13

- Close Twin Oaks
- If Bond Measure passes, consolidate Twin Oaks with McCornack after addition
- Cost/Savings Target: \$0.3M

### 2013-14

- Possible closure/merger of non-language alternative schools with neighborhood schools
- Cost/Savings Target: TBD

#### **Impacts/Assumptions:**

1. Closure of some smaller neighborhood elementary schools.
2. Moves and transitions for some students and staff and merging of school teams.
3. Consolidated elementary schools will have more students and staff, and therefore, more flexibility in serving students.
4. Fewer school buildings to maintain and support through central services, including special education.
5. Maintains four viable high schools.
6. Some redrawing of boundaries will be required.

#### **4. Shared Services/Contracting Out**

We will continue to explore ways to gain efficiencies by sharing work that can be done in partnership with others or by finding different ways to deliver the services we provide. Starting with the local ESD and finding better ways to take advantage of the services they currently provide will be a positive step in that direction.

#### **FINAL RECOMMENDATION:**

##### 2011-12

- Identify additional services that can be provided by Lane ESD
- Determine what current services can be transferred to Lane ESD
- Cost/Savings Target: \$0.5M

##### 2012-13

- Explore service sharing options with other districts that could reduce costs
- Look at contracting out some services
- Cost/Savings Target: TBD

##### 2013-14

- Contract out or consolidate some services with other school districts or provide through private sector
- Cost/Savings Target: TBD

#### **Impacts/Assumptions:**

1. Shifting of services to ESD that may currently be provided by district
2. Ability to work within current ESD Local Service Plan to find savings
3. Collective bargaining required in most instances; impact bargaining in others.
4. Possible cuts to ESD funding or possible ESD consolidations proposed by the governor could make this more difficult to achieve for 2011-12.

#### **5. Materials & Supplies/Services**

This is an area where we've continued to cut away over the years. We still have teachers and other staff who dig into their own pockets to ensure that students have adequate supplies and materials to work with, and parents who are expected to pay more for supplies and to support school activities.

**FINAL RECOMMENDATION:**

2011-12

- 15% reduction in materials & supplies, contracted services budget
- Centralize purchasing of materials & supplies, equipment
- Cost/Savings Target: \$1.1M

2012-13

- TBD

2013-14

- TBD

**Alternate Recommendation:**

2011-12

- 20% reduction in materials & supplies, contracted services budget
- Centralize purchasing of materials & supplies, equipment
- Cost/Savings Target: \$1.5M

2012-13

- TBD

2013-14

- TBD

**Impacts/Assumptions:**

1. Substantial reduction in materials and services budget, including contracted services.
2. Some fixed costs such as utilities and fuel expense reductions will be achieved through efficiencies.

**6. School Instruction/Redesign**

While the revised recommendations do not propose reconfiguration of schools for 2011-12, I do believe that some kind of reconfiguration will be necessary to maintain strong instructional programs into the future if we are to keep four viable regions and four high schools.

The K-3 and 4-8 model that was initially recommended was based on some assumptions about the benefits to teaching and learning that would allow for greater flexibility in staffing and providing instruction. However, at this point there is no common ground even within the district about reconfiguration and the best model for moving forward into the future. The final recommendation proposes establishing a stakeholder task force to consider grade reconfiguration for the future, and to determine the instructional model most appropriate for meeting the 21<sup>st</sup> Century skills that will ensure our students graduate college- and career-ready.

**FINAL RECOMMENDATION:**

2011-12

- Stakeholder Task Force to recommend reconfiguration to new Superintendent and Board for implementation in 2012-13
- Redesign instructional delivery model for secondary schools to accommodate fewer students & less resources
- Cost/Savings Target: TBD

### 2012-13

Consider for future:

- Revise school calendar
- Shorter summer breaks
- 4-day school/work weeks
- Implementation of reconfiguration recommendations, if any
- Cost/Savings Target: TBD

### 2013-14

- TBD

#### **Impacts/Assumptions:**

1. Extends timeline for consideration of reconfiguration of schools and establishes broad stakeholder task group
2. Future review of status and efficacy of alternative schools, including language immersion schools
3. Looks at redesign of instructional delivery models
4. Possible revisions to school calendar

#### **7. Non-Instructional/Student Support Programs**

This recommendation has not changed since the preliminary recommendations were put forth. It anticipates that the reduction will affect programs in schools that support student activities and athletics. While some schools may be able to offset some of this reduction by expanded fundraising or community support, it will impact some of those things that help connect students to their schools. I worry about the extra burden we place on students and parents as we cut back in this area, and some of the equity issues that can occur with respect to different schools' ability to raise funds in their communities. For that reason, I have not at this time anticipated further reductions into the future.

#### **FINAL RECOMMENDATION:**

##### 2011-12

- Reduce General Fund support for athletics programs and other extracurricular offerings by 25%
- Cost/Savings Target: \$0.5M

##### 2012-13

- TBD

##### 2013-14

- TBD

#### **8. Reserves/One-time Funds**

I've noted several times that there was some risk to spending down our reserves and counting on one-time resources. With the uncertainty of the State funding picture, and now the possibility of a local income tax to support schools, it may be even more important that we retain a reasonable and prudent reserve as a hedge for any additional cuts that might occur in the State budget. Our strategy for future years assumes that we would balance each year's budget by using some reserves and one-time resources. By doing that we are pushing part of our financial gap forward. Consequently, we will need to make further reductions in each of the subsequent years, find additional revenue, or both. That is, the more we utilize reserves or one-time strategies for 2011-12, the more we will have to make up for in 2012-13 and/or 2013/14.

A bridging strategy will need to be considered as we front-load in 2011-12 based on the governor's proposed budget level. Other options may become available to us in 2012-13 if other revenue sources materialize, or if the governor or legislature identify a higher base funding for the second year of the biennium. How much risk we are willing to assume related to 2012-13 should drive any final decisions about level of or use of reserves as we proceed through the budget development and negotiations processes. If we do not pass a bond measure in May and/or a City measure does not pass, we will be at least another million dollars short in 2012-13.

**FINAL RECOMMENDATION:**

2011-12

- Use up to \$5.5M reserves/one-time funds to maintain and bridge to 2012-13
- Cost/Savings Target: \$5.5M

2012-13

- Use up to \$3M from sales of surplus property or lease revenue
- Cost/Savings Target: \$3M

2013-14

- GF Reserve and Contingency = 90% of Board Targets
- Cost/Savings Target: TBD

2014-15

- GF Reserve and Contingency = Board Targets

**Alternate Recommendation:**

2011-12

- Use up to \$6.5 million in reserves/one-time funds to maintain and bridge to 2012-13
- Cost/Savings Target: \$6.5M

2012-13

- Use up to \$3M from sales of surplus property or lease revenue
- Cost/Savings Target: \$3M

2013-14

- GF Reserve and Contingency = 90% of Board Targets
- Cost/Savings Target: TBD

2014-15

- GF Reserve and Contingency = Board Targets

**Impacts/Assumptions:**

1. Use of combination of reserves to mitigate 2011-12 and 2012-13 reductions. Assumes back to 90% board targets by 2013-14 and on sustainable path for 2014-15.
2. Presumes passage of bond measure in 2011-12 that carries forward General Fund offload of \$1.0 million
3. Uses sale of surplus property to replenish capital reserve accounts
4. Eliminates or reduces transfers to non-General Fund accounts

**9. Compensation/Benefits**

While the intent is not to build this budget "on the backs of employees," our continuing reality is that over 85% of our budget is in personnel costs. Which means we will have fewer people working for the district and/or those who do work for us will have to share in the sacrifice to help mitigate some of the impacts so we don't have to eliminate as many jobs or services. As we increase the ratio substantially, the

impact will be both on students and staff, and that's not a scenario that is consistent with our hierarchy of values, goals and priorities. As I've continued to note, this is an area where the goals with regard to compensation and benefits adjustments cannot be counted on in terms of their realization. Since we will have to negotiate with the unions on these matters, it is really not prudent to assume that these goals will be gained in anticipation of making decisions about other potential reductions, including changes to the staffing reductions, ratio changes, or use of reserves.

PERS indicates that school districts make up only 55% of employers who currently pay the "pick-up" and pay the IAP contribution. Employers who pay the "pick-up" will have to change their salary reporting to member-paid status on either a "pre-tax" or "post-tax" basis. This would result in a reduction in take-home pay for the approximately 70% of PERS members whose contributions are now picked up, as the contribution will instead come out on either a "pre-tax" or "post-tax" basis. Since these pick-ups are part of employee contracts, and any changes would have to be negotiated, they typically cause salaries to go up. Most of the districts currently not paying the "pick-up," according to COSA, are in the Portland Metro area and they pay higher salaries to cover the employees' costs.

**FINAL RECOMMENDATION:**

2011-12

- Negotiate pay freeze, including no step increase
- Negotiate no increased benefits costs
- GF Costs/Savings Target: \$1.5M

2012-13

- Negotiate contract adjustments that minimize and contain ongoing costs to district
- General Fund Costs/Savings Target: TBD

2013-14

- TBD

**Alternate Recommendation A:**

2011-12

- Negotiate pay freeze, including no step increase
- Negotiate \$200,000 decrease in benefits costs
- GF Costs/Savings Target: \$1.7M

2012-13

- Negotiate contract adjustments that minimize and contain ongoing costs to district
- GF Costs/Savings Target: TBD

2013-14

- TBD

**Alternate Option B:**

- Negotiate salary reduction of 5% across the board.
- Negotiate reduction in part of PERS employer pick-up.
- GF Costs/Savings Target: \$4-\$6 million

**Impacts/Assumptions:**

1. Dual impact on remaining employees with decreased work years (furloughs) and no compensation increases.
2. Workload impact as fewer people around to do the work.

3. This scenario once again asks employees to sacrifice in order to preserve services into the future. Employees have stepped up as we've asked them to do more with less, and now we'll be asking them to sacrifice even more as we struggle to balance our budget going forward.
4. Negotiating any substantial changes related to compensation or benefits could require considerable time and might not be accomplished in time to avoid some of the other reductions related to staffing and other reductions.

#### **10. Revenue Enhancements**

This strategy option calls for the district to find additional sources of revenue to support our General Fund operating budget and maintain capital infrastructure. Because the district is limited in the ways it can raise revenue due to state law and various ballot measures, the options in this area are fairly limited. With the proposed local income tax being considered by the City Council for a possible May ballot measure, the recommendation for a bond measure in May might have to be reconsidered. At the board meeting on February 2, or at the latest by March 16, the board will need to make a decision regarding whether to refer a bond measure to voters at the May election. The board will need to consider the prospect of a City Council decision to put the local tax on the May or November ballot. If a local income tax measure were placed on the ballot and it were to pass, we would need to be prepared to respond to how that would mitigate the recommended strategy options for 2011-12, particularly those related to 1) Reduced Staffing/Services and Programs (changes to staffing ratios and teacher layoffs) and 2) Fewer School/Work Days (furlough days and reduced school days). At the February 2 board meeting staff hopes to be able to answer those questions.

#### **FINAL RECOMMENDATION:**

##### 2011-12

- Bond Measure \$130M in May 2011 for critical needs, technology & new school (offload of GF = \$1M)
- Increase community use fees by 20% (\$20K)
- Lease closed schools to charters/others (\$200K)
- Revenue Target: \$1.2M GF

##### 2012-13

- Sell Civic, Willard, or other vacant facilities with 50% proceeds to GF Reserve (\$3M-\$5M)
- Local tax to support local schools in 2012-13 (\$10-12M for 3 yrs) – November 2011
- Revenue Target: \$10-12M ongoing; \$3M one-time

##### 2013-14

- Implementation of any new revenue sources to mitigate reductions
- Revenue Target: TBD

#### **Impacts/Assumptions:**

1. Pass bond measure in May to support purchase of technology, address critical facilities maintenance and repair needs, and construct new school/s. If it doesn't pass, re-try in November 2011.
2. Increase in user fees to current fee payers and adding fees for User Class 1. (Assumes that community organizations can afford to pay fee increases.)
3. Increases lease fees to provide for a profit margin for the district. Some lessees may look elsewhere.

## 11. Other Options

These are other possible options that may result in savings, primarily over the long term. Some additional analysis would be needed to determine the efficacy of these options.

### **FINAL RECOMMENDATION:**

**Continue to pursue and analyze the following potential options for their ability to generate cost savings or affect the efficiency of the overall district operation:**

- Consider early retirement incentives. Preliminary staff analysis indicates that this would be a cost item and staff believes that any retirement incentive program should be connected to decisions regarding changes in the staffing ratio and be directly connected to cost savings and preserving of jobs.
- Adopt single-platform technology systems for centralized purchasing & technical support
- Minimize site-based decision making and increase centralized direction for staffing; e.g., program staffing for student support services
- GF Costs/Savings Target: TBD

The superintendent recommends approval of recommendations 1 through 10 as provided above, or as the board may determine to adopt any of the alternate options/recommendations identified above, or as otherwise modified or amended by the board. The final action should set a target for budget development of \$24 million in reductions for 2011-12.

## 5. **Approve Candidates to Interview for Superintendent**

The board will hold an executive session on January 31 to hear the recommendation of the executive search consultant, developed in collaboration with the Superintendent Search Committee, regarding candidates to advance for interviews with the board. The board will be asked to approve a motion confirming the names of candidates that are invited to interview with the board.

Interviews with the board will be conducted in executive session on February 11 and/or 12. The board then plans to invite finalist candidates to return for an opportunity to meet with community representatives, before the board makes a final selection.

## IX. **CONSENT GROUP – ITEMS FOR ACTION**

### 1. **Approve Corporate Resolution for Commerce Bank VISA Program** (Staff: Mary Nickelson-Hill)

#### **Action Proposed:**

Approve a line of credit with Commerce Bank that will allow the District to utilize VISA credit card services to make invoice payments to participating vendors.

#### **Background:**

Commerce Bank offers an electronic remittance program which utilizes VISA credit card services to initiate vendor payments on behalf of their clients. The program is

facilitated by a credit limit extended to the client by Commerce Bank. This credit limit works exactly the same as it would for any ordinary credit card.

It is the sole responsibility of Commerce Bank to solicit vendors for participation in the program. Enrollment is voluntary, and vendors who agree to participate are charged a 2.5% fee on payments made through the program. Clients earn between .9% and 1.09% of total payments, depending on the volume of dollars running through the program.

Based on an analysis of the District's active vendors, Commerce Bank has estimated that the District can earn up to \$90,000 annually.

**Discussion:**

**1. Rationale:**

The program will provide an opportunity to earn revenue through a modification of the accounts payable payment process. In addition to the incoming revenue, the District will also realize savings through the reduction of paper checks that are printed and mailed each month.

The program is attractive to vendors because they receive payments electronically. This allows them to process payments more quickly, and eliminates much of the manual entry process.

**2. Options and Alternatives:**

The District could maintain the status quo, and continue to print and mail all vendor payments. However, this is an opportunity to participate in a revenue sharing program that requires no financial commitment from the District.

**3. Budget/Resource Implication:**

The initial setup and testing will require Financial Services staff time, though it is estimated that this will be minimal. There is no direct financial outlay required by the District.

**4. Board and Superintendent Goals:**

The proposal supports the Board Goal to provide prudent stewardship of district resources to best support student success, educational equity and choice.

**Recommendation:**

The superintendent recommends that the board approve a corporate resolution with Commerce Bank.

**2. Approve Personnel Items (Staff: Celia Feres-Johnson)**

The superintendent recommends approval of the personnel items included in the board packet. These cover employment, resignations, and other routine personnel matters. The board may adjourn to executive session for matters dealing with employment if it desires to do so. ORS 192.660 (2) (a)

**X. ITEMS FOR ACTION AT A FUTURE MEETING**

**1. Consider the 2011-12 Lane Education Service District Local Service Plan**

As required by House Bill 3184, Lane Education Service District has developed a Local Service Plan. The process in developing this plan included analysis of all resolutions/core services with the 16 component districts. Through this process component districts had the opportunity to gain knowledge, share and discuss their needs and provide recommendations for the local service plan.

The Local Service Plan contains all services mandated by law. These services are intended to: Improve student learning; enhance the quality of instruction provided to students; assure equitable access to resources; and maximize operational and fiscal efficiencies. This plan includes services for:

1. Students with special needs
2. School improvement
3. Technology
4. Administrative and support
5. Additional services

Copies of the Local Service Plan Report for 2009-2010 and the 2009-2010 Summary of Services for Eugene School District 4J are included board packet. A copy of the Resolution Adopting the Local Service Plan is also included in this board packet. The superintendent will recommend adoption of the 2011-12 Lane ESD Local Service Plan.

**XI. Comments and Committee Reports by Individual Board Members**

**XII. Adjourn**

**Calendar for Board Members**

Friday, February 11	Superintendent Interviews	TBD
Saturday, February 12	Superintendent Interviews	TBD
Wednesday, February 16	Regular Board Meeting	7 pm
February 14-25	Board interviews with Superintendent finalist candidates	to be scheduled
Wednesday, March 2	Regular Board Meeting	7 pm
March 7-11	Community forums with Superintendent finalists	to be scheduled
Wednesday, March 16	Regular Board Meeting	7 pm

*Hold for spring Board Retreat (date to be selected after mid-March):*

Friday, April 15 afternoon and Saturday, April 16

Friday, May 20 afternoon and Saturday, May 21