TO:       Board of Directors

FROM:   George Russell
         Superintendent of Schools

RE:       Reports and Recommendations

VIII. ITEMS FOR ACTION AT THIS MEETING

1. **Approve a Resolution Adopting the 2011-12 Budget, Making Appropriations, Imposing and Categorizing Taxes** (Staff: Susan Fahey)

Action Proposed:
The superintendent recommends that you adopt the 2011-12 approved budget as revised to reflect the inclusion of targeted funding FTE. The superintendent will recommend approval of a resolution adopting the budget, making appropriations, and imposing and categorizing taxes.

Background:
On May 23, 2011 the Budget Committee unanimously approved the proposed budget as presented by the Superintendent amended by the following to recognize the impact of updated financial projections for the current fiscal year, the addition of two items inadvertently omitted from the proposed budget, and voter approval of the district’s $70 million general obligation bond in the May 17, 2011 election:

**General Fund**
**Resources:** Increase Net Working Capital by $362,000.

**Requirements:**
1. Add 2.9 licensed FTE ($257,304) to the budget for Less Restrictive Programs for Students with Disabilities, inadvertently omitted from the Proposed Budget.
2. Increase appropriations for Regular High School Programs by $38,000 to provide for International Baccalaureate assessments, inadvertently omitted from the Proposed Budget.
3. Increase the Contingency Fund by $7,000 to reflect the higher level of expenditures described above.
4. Increase the Unappropriated Ending Fund Balance by $59,696, the difference between the increase in Net Working Capital and the additional appropriations.
Capital Projects Fund

Resources: Recognize $35 million in Bond Proceeds to begin implementing the capital improvement program. District staff will issue $35 million in August 2011 and the remaining $35 million in approximately three years, once initial proceeds are expended.

Requirements:
1. Increase the Building Acquisition, Construction, and Improvement Services appropriation by $5.4 million to reflect the incremental increase in capital spending expected in 2011-12.
2. Increase the Financial Services appropriation by $310,000 to cover costs associated with the issuance of the bonds, including financial advisory, underwriting and legal fees and the cost of obtaining a bond rating.
3. Increase the Unappropriated Ending Fund Balance by $29,290,000 to hold remaining bond proceeds in reserve for use in future years.

Debt Service Fund

The debt service levy for 2011-12 was increased to cover the additional debt service requirements associated with the $35 million in bonds to be issued in August 2011. Prior Year’s Taxes were increased to restore anticipated collections to 30% of projected outstanding taxes receivable.

Resources:
1. Recognize an increase in Current Year’s Taxes of $422,778.
2. Recognize an increase in Prior Years’ Taxes of $81,000.
3. Recognize Other Federal Revenue representing the Quality School Construction Bond interest supplement totaling $900,000.

Requirements: Increase the Long-Term Debt Service appropriation by $1,403,778 for the payment of principal and interest related to the bonds

The approved budget totals $308.9 million, an increase of $16 million or 5.5% from the 2010-11 adopted budget. The main reason for the increase is the receipt and appropriation of $35 million in bond proceeds. The approved general fund operating budget is $7 million lower than the 2010-11 adopted budget, with the greatest reductions resulting from a sharp decrease in state funding. Lower grant budgets reflect the expiration of American Recovery and Reinvestment Act (ARRA) funding. Small decreases were also made in the insurance reserve, capital equipment, nutrition services, and retirement funds.

General Fund - Approved

The general fund operating budget of $135.4 million (excluding contingency and UEFB) has decreased by $6.6 million or almost 5% from 2010-11. Due to using substantial reserve strategies to fund the operating budget and a significant increase in state mandated pension costs, the shortfall from current service level was over $21 million. Budget reduction strategies included using reserves of $5 million, reducing central office and administration budgets by $3.5 million, closing and consolidating schools to achieve $900,000 in savings, and reducing staffing which lowered the budget by an additional $7.4 million. An additional $4.5 million in budget reduction strategies consisting of further staffing reductions or employee compensation strategies have yet to be specifically identified.
General fund revenues, excluding beginning fund balance, have remained relatively flat from 2010-11 with higher state resources offset by lower property tax and federal revenues. General fund resources for 2011-12 are $7 million lower than 2010-11 primarily due to a decrease in beginning fund balance as part of the budget reduction strategies.

With voter approval of the $70 million general obligation bond, the district will shift $1 million in appropriations for annual building improvement and repair costs from the general fund to the capital projects fund, creating additional capacity to support district operations in each year of the six-year capital improvement program. For 2011-12, the proposal is to use the $1 million for the following purposes:

- Add 5.5 FTE licensed staff and 6.0 FTE classified staff to classrooms in schools with higher populations of students needing increased support due to academic, economic, and social challenges;
- Provide $50,000 for Quickbase software maintenance fees to further the ability of school staff to monitor the progress of struggling students;
- Allocate $30,000 for extra-curricular fee support for students who need financial assistance to participate in district athletics and activities;
- Add $20,000 on a one-time basis to create a middle school base for the AVID program in the Churchill region;
- Provide $50,000 to restore Financial Services staffing and provide support for payroll, accounting and financial analysis operations;
- Add $50,000 to the Human Resources budget to develop a new evaluation tool for administrators and provide support for other critical Human Resources operations.

To achieve this, in the general fund $1 million will be re-appropriated from Building Support Services to Direct Classroom Services – Regular Programs, $800,000; Classroom Support Services – Extra-curricular Activities, $30,000; Classroom Support Services – Counselors, Nurses and Student Support, $70,000; and Central Support Services, $100,000.

**Proposed Changes to the Approved Budget**

As in prior years, I recommend changes regarding school Targeted Funding FTE. Each year schools receive a staffing allocation and a “discretionary budget” for materials and services. Part of that discretionary budget is a “targeted funding allocation” that can be used for either staff or materials and services. Of the $1.8 million provided to schools, most is used to fund teachers and instructional assistants. The amount appropriated will not change, but the adopted budget will show an increase of 7.32 FTE licensed staff and 15.62 FTE classified staff to reflect staffing plans developed by schools.

Due to the uncertainty surrounding state funding in the 2011-13 biennium and the district’s 2012-13 projected shortfall of $9 million, I recommend that the 5.5 FTE licensed staff and 6 FTE classified staff approved by the budget committee to be added back as a result of shifting building improvement costs to the capital
improvement fund not be filled at this time. The appropriations related to this staffing would be placed in the contingency to be allocated at a later date.

**Proposed Change to the Debt Service Levy**

The debt service levy approved by the budget committee did not take into consideration uncollectible taxes. At your last meeting, a public hearing was held correcting the levy amount to $15,654,454 which corresponds to the projected tax rate of $1.30 per $1,000 of assessed value as represented at the May 23, 2011 Budget Committee meeting.

**Discussion:**

1. **Rationale:** Oregon Revised Statute (ORS) 294.435 requires that the board approve a resolution formally adopting the budget, making appropriations and imposing and categorizing taxes. This must occur no later than June 30 after a budget hearing has been held and public comments received. Without an adopted budget and proper appropriations, the district has no legal authority to spend money. Any spending in the fiscal year without proper appropriations violates the law and, under ORS 294.100, members of the governing body are personally liable for any unlawful expenditure.

2. **Options and Alternatives:** ORS does not provide for any alternatives to this process. Board action could be deferred to a later date but must occur on or before June 30, 2011.

3. **Budget/Resource Implications:** Adoption of the budget is required to establish legal spending authority and certify to the assessor an ad valorem tax rate for the fiscal year beginning July 1, 2011.

4. **Board/Superintendent Goals:** This item is related to the board goal to provide prudent stewardship of district resources to best support student success, educational equity and choice.

**Recommendation:**

The superintendent recommends that you adopt the 2011-12 budget as amended to include targeted funding FTE, remove the appropriation for 5.5 licensed and 6 classified FTE and increase contingency by the amount of the FTE reductions in the general fund. The superintendent recommends approval of a resolution adopting the budget, making appropriations, and imposing and categorizing taxes. A copy of the resolution will be provided at your meeting.

**VIII. COMMENTS AND COMMITTEE REPORTS BY INDIVIDUAL BOARD MEMBERS**

**IX. ADJOURN**

**Calendar for Board Members**

- **Wednesday, July 13**: Special Board Meeting  TBD