MEMORANDUM

To: Budget Committee Members

From: George Russell
Superintendent

Re: December 15, 2008 Budget Committee Meeting

This memo is intended to give you an overview of the meeting and describe the materials in your packet.

I. Introduction of New Members

II. Roll Call

III. Election of Officers

It is my recommendation that the Budget Committee elect a chair and vice-chair for the year.

IV. Items Raised by the Audience

Public testimony is welcomed at budget committee meetings and time is set aside at each meeting to hear comments from the audience.

V. Items for Information and Discussion

A. Review Enrollment Projections
A copy of district enrollment projections is included in your packet. Staff will review the projections.

B. Update on Shaping 4J’s Future
District staff has been working on the Shaping 4J’s Future recommendations approved by the Board last spring. Staff will provide a brief update on activities and future timelines.

C. Review 2008-09 Financial Projection
Included in your packet is the 2008-09 financial projection. Staff will review the projection and share strategies implemented to address the mid-biennium state revenue reduction.

VI. Items for Action at This Meeting

A. Approve Minutes from the April 28 and May 12, 2008 Budget Committee Meetings
The Superintendent recommends approval of minutes.

B. Review Draft of District Financial Forecast and Provide Direction for Balancing the 2009-10 Budget

This financial forecast has been prepared in response to the district’s adopted management goal of maintaining long-term financial stability and its adopted policies related to preparation of an annual forecast. The forecast establishes key assumptions underlying the projections and identifies variables that may cause the projections to change. Its purpose is to provide the fullest picture of the district’s financial future so that decision-making today can support high quality and innovative educational programs tomorrow. The draft forecast serves as a basis for the Superintendent’s recommendation on parameters for balancing the coming year’s budget.

General Fund Forecast

Despite strong community support that was reaffirmed with the passing of the district’s local option levy last month, the current recession gripping our nation and state will have a significant impact on the district’s revenues. The State School Fund formula, which relies heavily on income and property tax revenues, provides approximately 87% ($130 million) of the district’s general fund revenues. The district’s local option levy is based on real market values exceeding assessed market values and provides 9% ($14 million) of general fund revenues.

According to Global Insight’s December 3, 2008 report, while the housing markets for the United States as a whole are no longer overvalued, Pacific Northwest properties are. Their analysis indicated that Eugene property values were overstated by almost 31%. Oregon’s October 2008 seasonally adjusted unemployment rate was 7.3%, and Lane County’s was 8.2%. These rates are currently not as high as during the 2002-03 recession; however, unemployment figures continue to rise with November posting the steepest nationwide employment decline in 34 years. Most economists believe the recession will continue for several more quarters. With state and district revenues relying on healthy real estate markets and employment, these economic indicators have set the stage for what is clearly going to be difficult financial times.

Due to the economic uncertainty, financial services staff has prepared three forecasts. A base forecast using Governor Kulongoski’s proposed revenue assumptions for 2009-11 K-12 funding, a forecast that does not include education stability funds proposed by the governor, and a forecast that assumes further erosion of the economy. On the expenditure side, all forecasts assume the current service level less expenditures that were only funded through 2008-09. A list of the expenditures removed is included in your packet. The forecasts also include a drop in PERS rates in 2009-11 when the composite PERS rate is expected to decrease by four percentage points. Rates were set based on the December 2007 valuation which was prior to the financial market decline. For the 2011-13 biennium, however, rates are anticipated to increase eight percentage points based on low investment portfolio returns. The forecasts include reserving a portion of the savings generated from the 2009-11 decrease to offset anticipated rate increases in the 2011-13 biennium.

Projected operating performance is presented below. As the chart shows, operating deficits are projected in every year.

<table>
<thead>
<tr>
<th>Annual Deficit—General Fund</th>
<th>If Corrective Action Taken</th>
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</thead>
<tbody>
<tr>
<td>(Millions of $)</td>
<td>09-10</td>
</tr>
<tr>
<td>Base Forecast</td>
<td>(4,393)</td>
</tr>
</tbody>
</table>
Lower State Support       (4,393) (4,380) (4,435) (1,006)
Further Economic Erosion (10,962) (1,635) (4,842) (1,147)

Capital Forecast

Financial and Facilities staff will update the capital forecast and share the information at a future budget committee meeting.

Superintendent’s Recommendation for 2009-10 Budget

I recommend that the Budget Committee direct the Superintendent to propose a balanced budget for 2009-10 that:

- Is guided by the district’s mission, core values, board goals and key results,
- Sets aside funding to offset anticipated future PERS rate increases,
- Retains sufficient reserves to meet cash flow needs, retain the district’s bond rating and achieve board targets for contingency and reserves, and
- Addresses the shortfall by making service or cost reductions, using the following criteria:
  - Preserve to the greatest extent possible district education programs keeping board goals and key results at the forefront of decisions;
  - Retain sufficient funds to manage the required human resource, financial, information technology, leadership and facility maintenance activities of the district;
  - Be mindful of the long-term, avoiding short-term solutions that may have harmful long-term consequences.

C. Set Date for Next Budget Committee Meeting

I recommend that the Budget Committee set the next meeting for January 26, 2009 to discuss budget reduction strategies. I also request that the Budget Committee reserve Monday, March 16, 2009 to discuss the state’s March forecast if economic conditions have deteriorated significantly from the December forecast.

I propose that Monday, April 27, 2009 be set to receive the budget message and proposed 2009-10 budget. If additional meetings are necessary to review the budget, I would recommend reserving May 4 and 11, 2009 as possible meeting dates.

VII. Items Raised by Members of the Budget Committee

Budget Committee members will have an opportunity to raise issues that are not included on the agenda.

VIII. Adjournment