



TO: Board of Directors

FROM: George Russell
Superintendent of Schools

Superintendent's Sustainable Budget Final Recommendations and Alternate Options

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 than \$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 21st 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.