

BOARD OF EDUCATION

Portland Public Schools
Study Session
January 17, 2012

Windows Conference Room

Blanchard Education Service Center
501 North Dixon Street
Portland, Oregon 97227

Note: Those wishing to speak before the School Board should sign the citizen comment sheet prior to the start of the regular meeting. No additional speakers will be accepted after the sign-in sheet is removed, but citizens are welcome to sign up for the next meeting. While the School Board wants to hear from the public, comments must be limited to three minutes. All citizens must abide by the Board's Rules of Conduct for Board meetings.

Citizen comment related to an action item on the agenda will be heard immediately following staff presentation on that issue. Citizen comment on all other matters will be heard during the "Remaining Citizen Comment" time.

This meeting may be taped and televised by the media.

WORK SESSION AGENDA

1. **CITIZEN COMMENT** 5:00 pm
2. **OREGON EDUCATION INVESTMENT BOARD UPDATE** 5:20 pm
3. **BREAK** 6:20 pm
4. **BUDGET OVERVIEW** 6:40 pm
Overview of the Budget
- Revenue Sources
- Major Expense Categories
Update on 2011-2012 Budget
Budget Amendment No. 2
2012-2013 Forecast
Boiler Burner Replacement Project
Debt Financing
5. **REVIEW OF BOARD MEETING STRUCTURE** 8:30 pm
6. **ADJOURN** 9:00 pm

The next Regular Meeting of the Board will be held on **January 23, 2012**, at **5:00 pm** in the Board Auditorium at the Blanchard Education Service Center.

Portland Public Schools Nondiscrimination Statement

Portland Public Schools recognizes the diversity and worth of all individuals and groups and their roles in society. All individuals and groups shall be treated with fairness in all activities, programs and operations, without regard to age, color, creed, disability, marital status, national origin, race, religion, sex, or sexual orientation.

Board of Education Policy 1.80.020-P



PORTLAND PUBLIC SCHOOLS

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Superintendent's Recommendation to the Board and Staff Report

Title: Budget Amendment #2 to the Fiscal Year 2011/12 Adopted Budget

Board Committee Date:
January 17, 2012

**District Priority: Build Shared Leadership
and Accountability for Results**

Board Meeting Date (if action item):
January 23, 2012

Executive Committee Lead: Neil Sullivan, CFO

Department: Finance

Staff Lead: Zhai Logan, Budget Director

Issue Statement

Amend the Fiscal Year 2011/12 Adopted Budget incorporating directions from the Superintendent, including updated Beginning Fund Balances and other technical budget updates.

Background

School districts are allowed, and sometimes required by law (ORS 294.480), to amend the budget during the fiscal year. The District has experienced changes in its financial position that require updating the budget to better reflect the current status.

- On June 27, 2011 the Board, by way of Resolution No. 4474, voted to adopt an annual budget for the Fiscal Year 2011/12 as required under Local Budget Law.
- On October 24, 2011 the Board, by way of Resolution No. 4501, amended the Fiscal Year 2011/12 budget.

Each fall the Budget Department, in cooperation with schools and central departments, conducts a reconciliation process whereby the current budget is reviewed and compared to the actual activities the district is engaged in and prepares an amended budget accordingly. In addition, as part of that process, all funds are reviewed and beginning fund balances are updated to match prior year ending fund balances as reflected in the audited amounts presented in the District's Comprehensive Annual Financial Report (CAFR).

Related Policies/Fiscal Impact

An amended budget is necessary to ensure effective financial management of the District's programs and priorities and to remain in compliance with State statute. Specifically, the District is required to ensure legal appropriation of expenditures by program area as defined in the State Chart of Accounts.

General Fund

- The proposed amendment results in a net increase in the General Fund of \$1,159,540.
- Increase Beginning Fund Balance by \$3,316,038 to match the CAFR.
- Other revisions made to resources include an additional \$5,004,270 from the State School Fund resulting from increased enrollment and additional School Year Sub-Account funding, and an additional \$1,159,988 in recovery of prior year expenditures made as a result of the fire at Binnsmead (of which \$620,241 was received directly into Fund 101 and \$539,747 was passed thru Fund 601).
- A decrease of \$8,320,756 in anticipated revenue from the Local Option Levy, resulting from decreased market value, compression, and new rate calculations.
- Contingency is unchanged at \$24,559,259.
- Reconcile budget to reflect current school and central department activities. This results in a net decrease to Instruction of \$1,284,197 and a net increase to Support Services of \$1,394,454. The majority of this shift has occurred within schools. Schools convert their allocated instructional FTE into support FTE such as Counselors and Librarians.
- Increase to Enterprise & Community Services by a net of \$526,402 as a result of the reorganization related to Family Engagement.
- Increase Facilities Acquisition and Construction by a net of \$522,881 as a result of reconciling carryover from 2010/11.

Student Body Activity Fund (201)

- Decrease Beginning Fund Balance by \$118,805 to match the CAFR and adjust requirements to balance.

Cafeteria Fund (202)

- Increase Beginning Fund Balance by \$508,883 to match the CAFR and adjust other anticipated revenue sources.
- Balance the fund by increasing requirements, primarily in Food Preparation & Service.

PERS Rate Stabilization Fund (225)

- Decrease Beginning Fund Balance by \$12,800 to match the CAFR and reduce Ending Fund Balance by the same.

Construction Excise Tax (404)

- Increase Beginning Fund Balance by \$1,360,825 to match the CAFR and increase Contingency by the same amount.

School Modernization Fund (405)

- Increase Beginning Fund Balance \$168,360 to match the CAFR.
- Restore Fund to intended levels after technical corrections made in Amendment #1.
- Changes in requirements represent a 95% increase over those in Amendment #1, and as such require inclusion in a public hearing to be held by the Board prior to amending the budget, as covered by ORS 294.480 (4).

IT System Project Fund (407)

- Decrease Beginning Fund Balance by \$217,126 to match the CAFR.
- Reduce Contingency by \$269,301 and increase Support Services by \$56,555.

Full Faith and Credit Fund (420)

- Increase Beginning Fund Balance by \$1,081,532 to match the CAFR and adjust requirements to balance.
- Changes in requirements represent a 24% increase over the current budget, and as such require inclusion in a public hearing to be held by the Board prior to amending the budget, as covered by ORS 294.480 (4).

Recovery Funds (480)

- Reduce Beginning Fund Balance by \$803,701 to match the CAFR and adjust requirements to balance.

Self-Insurance Fund (601)

- Increase Beginning Fund Balance by \$994,728 to match the CAFR.
- Increase Contingency from \$500,000 to \$2,114,740.
- Recognize recovery of previous expenses related to Binnsmead fire of \$1,159,759, of which \$539,747 will be transferred to the General Fund to support operations.

Board Options

This action requests that the Board amend the FY 2011/12 budget.

The Board may choose not to amend the budget. However, the District is still required under State statute to limit spending to the amount of funds actually available. Also under State statute, no fund is allowed to end the year in a negative position. Without these changes, the District would be at risk of ending the year with some funds in a negative position.

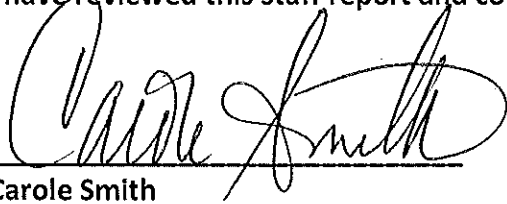
Staff Recommendation

Staff recommends the Board authorize the proposed changes to the FY 2011/12 budget as summarized below and in the authorizing resolution.

Board Committee Review

This action is scheduled for discussion and deliberation by the Board Committee on January 17, 2012.

I have reviewed this staff report and concur with the recommendation to the Board.



Carole Smith
Superintendent
Portland Public Schools

January 12, 2012
Date

ATTACHMENTS

- A. Resolution – Amendment No. 2 to the 2011/12 Budget for School District No. 1J, Multnomah County, Oregon

RESOLUTION No. XXXX

Amendment No. 2 to the 2011/12 Budget for School District No. 1J, Multnomah County, Oregon

RECITALS

- A. On June 27, 2011 the Board, by way of Resolution No. 4474, voted to adopt an annual budget for the Fiscal Year 2011/12 as required under Local Budget Law.
- B. Board Policy 8.10.030-AD, "Budget Reallocations – Post Budget Adoption," establishes the guidelines to ensure consistent and detailed communication on fiscal issues between the Superintendent and the Board of Education ("Board"). Communication is essential under circumstances that could result in significant reductions or reallocations of funding after the Board has adopted the budget.
- C. Oregon Local Budget Law, ORS 294.480, allows budget changes after adoption under prescribed guidelines.
- D. On October 24, 2011 the Board, by way of Resolution No. 4501, amended the Fiscal Year 2011/12 budget.
- E. This Amendment No. 2 will further revise the FY 2011/12 Adopted Budget under ORS 294.480 guidelines, which states the budget may be amended at a regular meeting of the governing body.
- F. Amendment No. 2 adjusts Beginning Fund Balances to match the FY 2010/11 actual Ending Fund Balances as reflected in the Comprehensive Annual Financial Report (CAFR) for that fiscal year.
- G. Amendment No. 2 adjusts program allocations for funds to more accurately reflect intended expenditures.

RESOLUTION

1. The Board hereby amends budgeted revenues and expenditure appropriation levels as summarized by Fund and Appropriation Level in Attachment A for the fiscal year beginning July 1, 2011.

Z. Logan / N. Sullivan

ATTACHMENT "A"

Fund 101 - General Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	28,225,423	28,225,423	3,316,038	31,541,461
Local Sources	270,079,744	270,079,744	(7,700,515)	262,379,229
Intermediate Sources	6,915,000	6,915,000	-	6,915,000
State Sources	156,804,000	156,804,000	5,004,270	161,808,270
Federal Sources	7,000	7,000	-	7,000
Other Sources	5,270,000	5,270,000	539,747	5,809,747
Total	467,301,167	467,301,167	1,159,540	468,460,707

Requirements				
Instruction	254,456,703	254,456,703	(1,284,197)	253,172,506
Support Services	177,021,524	177,021,524	1,394,454	178,415,978
Enterprise & Community Services	550,000	550,000	526,402	1,076,402
Facilities Acquisition & Construction	3,109,593	3,109,593	522,881	3,632,474
Debt Service & Transfers Out	7,604,088	7,604,088	-	7,604,088
Contingency	24,559,259	24,559,259	-	24,559,259
Ending Fund Balance	-	-	-	-
Total	467,301,167	467,301,167	1,159,540	468,460,707

Fund 201 - Student Body Activity Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	3,207,000	3,207,000	(118,805)	3,088,195
Local Sources	8,100,000	8,100,000	-	8,100,000
Intermediate Sources	-	-	-	-
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	11,307,000	11,307,000	(118,805)	11,188,195

Requirements				
Instruction	8,150,000	8,150,000	(118,805)	8,031,195
Support Services	-	-	-	-
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service & Transfers Out	-	-	-	-
Contingency	-	-	-	-
Ending Fund Balance	3,157,000	3,157,000	-	3,157,000
Total	11,307,000	11,307,000	(118,805)	11,188,195

Fund 202 - Cafeteria Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	2,898,436	2,898,436	508,883	3,407,319
Local Sources	3,780,952	3,780,952	(50,340)	3,730,612
Intermediate Sources	-	-	-	-
State Sources	209,355	209,355	(3,203)	206,152
Federal Sources	12,667,029	12,667,029	(150,229)	12,516,800
Other Sources	-	-	-	-
Total	19,555,772	19,555,772	305,111	19,860,883

Requirements				
Instruction	-	-	-	-
Support Services	-	-	-	-
Enterprise & Community Services	17,025,398	17,025,398	305,111	17,330,509
Facilities Acquisition & Construction	-	-	-	-
Debt Service & Transfers Out	-	-	-	-
Contingency	-	-	-	-
Ending Fund Balance	2,530,374	2,530,374	-	2,530,374
Total	19,555,772	19,555,772	305,111	19,860,883

Fund 225 - PERS Rate Stabilization Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	17,000,000	17,000,000	(12,800)	16,987,200
Local Sources	200,000	200,000	-	200,000
Intermediate Sources	-	-	-	-
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	17,200,000	17,200,000	(12,800)	17,187,200

Requirements				
Instruction	-	-	-	-
Support Services	-	-	-	-
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service & Transfers Out	1,900,000	1,900,000	-	1,900,000
Contingency	-	-	-	-
Ending Fund Balance	15,300,000	15,300,000	(12,800)	15,287,200
Total	17,200,000	17,200,000	(12,800)	17,187,200

Fund 404 - Construction Excise Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	3,222,972	3,222,972	1,360,825	4,583,797
Local Sources	1,004,000	1,004,000	-	1,004,000
Intermediate Sources	-	-	-	-
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	4,226,972	4,226,972	1,360,825	5,587,797

Requirements				
Instruction	-	-	-	-
Support Services	-	-	-	-
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	3,299,625	3,299,625	-	3,299,625
Debt Service & Transfers Out	677,347	677,347	-	677,347
Contingency	250,000	250,000	1,360,825	1,610,825
Ending Fund Balance	-	-	-	-
Total	4,226,972	4,226,972	1,360,825	5,587,797

Fund 405 - School Modernization Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	7,547,703	7,547,703	168,360	7,716,063
Local Sources	20,000	20,000	-	20,000
Intermediate Sources	-	-	-	-
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	7,567,703	7,567,703	168,360	7,736,063

Requirements				
Instruction	-	-	-	-
Support Services	-	-	-	-
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	7,067,703	3,236,852	3,099,211	6,336,063
Debt Service & Transfers Out	-	-	-	-
Contingency	500,000	4,330,851	(2,930,851)	1,400,000
Ending Fund Balance	-	-	-	-
Total	7,567,703	7,567,703	168,360	7,736,063

Fund 407 - IT System Project Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	3,430,123	3,430,123	(217,126)	3,212,997
Local Sources	-	-	4,380	4,380
Intermediate Sources	-	-	-	-
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	3,430,123	3,430,123	(212,746)	3,217,377

Requirements				
Instruction	-	-	-	-
Support Services	2,104,891	2,104,891	56,555	2,161,446
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service & Transfers Out	-	-	-	-
Contingency	1,325,232	1,325,232	(269,301)	1,055,931
Ending Fund Balance	-	-	-	-
Total	3,430,123	3,430,123	(212,746)	3,217,377

Fund 420 - Full Faith and Credit Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	5,000,000	5,000,000	1,081,532	6,081,532
Local Sources	23,000	23,000	-	23,000
Intermediate Sources	-	-	-	-
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	5,023,000	5,023,000	1,081,532	6,104,532

Requirements				
Instruction	-	-	-	-
Support Services	12,670	12,670	-	12,670
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	4,510,330	4,510,330	1,081,532	5,591,862
Debt Service & Transfers Out	-	-	-	-
Contingency	500,000	500,000	-	500,000
Ending Fund Balance	-	-	-	-
Total	5,023,000	5,023,000	1,081,532	6,104,532

Fund 480 - Recovery Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	3,000,000	3,000,000	(803,701)	2,196,299
Local Sources	-	-	-	-
Intermediate Sources	-	-	-	-
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	3,000,000	3,000,000	(803,701)	2,196,299

Requirements				
Instruction	-	-	-	-
Support Services	-	-	-	-
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	3,000,000	3,000,000	(803,701)	2,196,299
Debt Service & Transfers Out	-	-	-	-
Contingency	-	-	-	-
Ending Fund Balance	-	-	-	-
Total	3,000,000	3,000,000	(803,701)	2,196,299

Fund 601 - Self Insurance Fund	Adopted Budget	Amendment #1	This Amendment	Amendment #2
Resources				
Beginning Fund Balance	3,000,000	3,000,000	994,728	3,994,728
Local Sources	3,430,207	3,430,207	1,159,759	4,589,966
Intermediate Sources	-	-	-	-
State Sources	262,500	262,500	-	262,500
Federal Sources	-	-	-	-
Other Sources	-	-	-	-
Total	6,692,707	6,692,707	2,154,487	8,847,194

Requirements				
Instruction	-	-	-	-
Support Services	2,922,707	2,922,707	-	2,922,707
Enterprise & Community Services	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service & Transfers Out	3,270,000	3,270,000	539,747	3,809,747
Contingency	500,000	500,000	1,614,740	2,114,740
Ending Fund Balance	-	-	-	-
Total	6,692,707	6,692,707	2,154,487	8,847,194



PORTLAND PUBLIC SCHOOLS

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SUPERINTENDENT'S RECOMMENDATION TO THE BOARD AND STAFF REPORT

BOILER BURNER PROJECT

Board Work Session Date: January 17, 2012

District Priority: Design and Implement Capital Improvement Plan

Board Meeting Date: January 23, 2012

Executive Committee Lead: C.J. Sylvester, COO

Department: Facilities and Asset Management

Staff Lead: Tony Magliano, Director of Facilities and Asset Management

I. ISSUE STATEMENT

Forty-seven (47) of our school sites use heavy fuel oil (PS300) or diesel for heating their boilers; converting to natural gas offers utility savings of about \$1.8 million per year.

II. BACKGROUND

- A. Portland Public Schools has over 100 District facilities, 49 of these facilities are heated primarily by PS300 or diesel through oil-burning boilers.
- B. There are 47 oil burning sites (see Attachment A) where the change-out of the boiler fuel from oil to natural gas offers substantial operating cost savings.
- C. The failed 2011 PPS School Facility Bond included the boiler fuel conversion or replacement at all 47 sites.
- D. This proposed project scope includes:
 1. Replacing existing fuel oil burners with new natural gas burners,
 2. Replacing existing oil burners with dual fuel burners at select sites. Dual fuel burners can burn natural gas or diesel fuel. Significant fuel use at these 2-3 sites allows the District to take advantage of an available interruptible rate structure where temporarily switching to diesel fuel provides a rate incentive and saves the district additional money,
 3. Demolishing the interior oil distribution and pre-heating system,
 4. Required seismic stack modifications and/or stack liners,
 5. Required asbestos abatement,
 6. Ductwork and flue modifications,
 7. New gas meters and gas piping, and
 8. Decommissioning of existing underground storage tanks and fuel lines.
- E. For the fiscal year ending June 2011, the 47 included sites consumed 1,071,537 gallons of fuel oil and diesel at a cost of \$2,705,500, with an average \$/gal of \$2.52/gal.
- F. If the district fueled these sites with natural gas it would have cost \$1,398,355, saving the district over \$1.3 million based on FY 2010-11 figures.
- G. Based on an escalated fuel oil cost of \$3.00/gal and past usage, the annual utility savings for FY 2012-13 are estimated at \$1.8 million. This is the anticipated additional cost for FY 12-13 of continuing to use fuel oil rather than converting to natural gas.
- H. The annual DEQ fees associated with air contaminate discharge permits required to operate the fuel oil boilers at these sites averages around \$18,000; this will be an additional project savings.
- I. The estimated total cost to complete this project is \$9.12 million.
- J. Past boiler burner retrofit projects have resulted in considerable fuel consumption savings, as well as operating cost savings. (see Attachment B.)

- K. The assumed savings are based on a one to one conversion of each fuel type by energy content.
- L. The price of fuel oil and diesel has seen significant cost escalation in the last decade as compared to natural gas.
- M. Natural gas is less than half the cost on a per energy unit basis versus fuel oil at current rates.
- N. Local sourcing of PS300 is becoming more difficult and will likely drive heating costs up as supply sources diminish.
- O. PPS is the largest consumer of PS300 in the Portland Metro area, annually consuming about one million gallons and emitting nearly 10,000 equivalent metric tons of CO2 into neighborhood communities throughout Portland.
- P. Staff has developed a preliminary project delivery plan which provides for most of this work to be completed prior to the fall 2012 heating season. The plan is predicated on pre-ordering materials and implementing a phased contracting strategy. If all of the work can be completed prior to the fall heating season, the District will immediately realize in FY 2012-13 full cost savings from the burner change out.
- Q. The Chief Financial Officer will submit financing options to the Board under a separate staff report.

III. RELATED POLICIES/BEST PRACTICES

- A. This action applies to the District Strategic Framework foundational element "Stable Operating Model".
- B. The conversion of these burners aligns the District with its ongoing sustainability and energy conservation efforts.
- C. Aligns with Board policy 3.30.080-P on Resource Conservation.
 - 1. Specifically Section (1) Paragraph (d): *Maintain energy usage and energy costs at the lowest level that is reasonably achievable and consistent with an efficient learning environment in schools.*
- D. Aligns with Board policy 3.30.082-P on Environmentally Sustainable Business Practices.
 - 1. Specifically Section (2) Paragraph (d): *Purchase products based on long-term environmental and operating costs and include environmental and social costs in short term prices.*
- E. By replacing burners in these boilers the District will reduce its carbon emission levels released from these boilers by almost 50%.

IV. FISCAL IMPACT

- A. While the goal is to achieve a \$1.8M savings in FY 2012-13, staff is using a conservative estimate of \$1.2M based on only completing 2/3 of the conversions and therefore only realizing 2/3 of the savings benefit for FY 2012-13. Combined utility and permitting savings are estimated to escalate through 2019 to over \$2.2M annually.
- B. The simple payback for this project is just over five years, based on dividing the total project cost of \$9.12M by the estimated first year utility savings of \$1.8M.
- C. Required boiler maintenance will be greatly reduced thereby allowing custodians to allocate more time to operate and otherwise maintain these schools.
- D. Staff time currently devoted to the management and tracking of this fuel source can be reallocated to other district priorities.
- E. The district will increase its capital value at these sites.
- F. The district will decrease its risk associated with fuel oil distribution and potential contamination.
- G. The district will decrease its budget and operational risk associated with rising oil prices and faltering production.

V. COMMUNITY ENGAGEMENT

- A. District staff continues to interact with the public regarding our facilities including past and future energy saving projects.

VI. BOARD OPTIONS

- A. To direct staff to complete this work.
- B. To not direct staff to complete this work and continue the use of PS300 fuel oil as the primary fuel source for schools that have not been previously converted to natural gas.

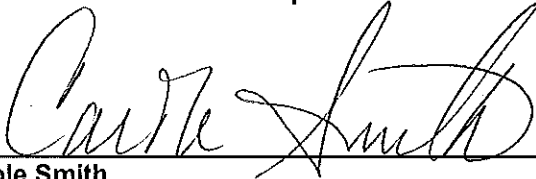
VII. STAFF RECOMMENDATION

- A. Staff recommends the Board approve converting the forty-seven school sites identified in Attachment B to natural gas burners for heating their boilers.

VIII. TIMELINE FOR IMPLEMENTATION/EVALUATION

- A. Pre-Engineering Survey – 1/3 to 1/21
- B. Design/Engineering/Bidding – 2/1 to 3/1
- C. Design Phase – 3/1 to 5/20
- D. Contractor Bidding (3 phases) – 4/1 to 7/1
- E. Construction Phase – 5/15 to 10/15
- F. Annual utility cost savings will be reported at the end of each fiscal year to highlight and evaluate project outcomes.

I have reviewed this staff report and concur with the recommendation to the Board.



Carole Smith
Superintendent
Portland Public Schools

January 10, 2012
Date

ATTACHMENTS

- A. Purposed Boiler Burner Conversion Sites
- B. Boiler Burner Conversion: Previous Project Fuel Cost and Energy Consumption Analysis

RESOLUTION No. xxxx

Authorizing Staff to Convert District Facilities From Heavy Fuel Oil or Diesel Boiler Burners to Natural Gas Boiler Burners.

RECITALS

- A. Portland Public Schools has over 100 District facilities, 49 of these facilities are heated primarily by heavy fuel oil (hereafter PS300) or diesel through oil-burning boilers.
- B. There are 47 oil burning sites where changing the boiler fuel from oil to natural gas offers substantial operating cost savings.
- C. The proposed project scope includes:
 - 1. Replacing existing fuel oil burners with new natural gas burners,
 - 2. Replacing existing oil burners with dual fuel burners at select sites. Dual fuel burners can burn natural gas or diesel fuel. Significant fuel use at these 2-3 sites allows the District to take advantage of an available interruptible rate structure where temporarily switching to diesel fuel provides a rate incentive and saves the district additional money,
 - 3. Demolishing the interior oil distribution and pre-heating system,
 - 4. Required seismic stack modifications and/or stack liners,
 - 5. Required asbestos abatement,
 - 6. Ductwork and flue modifications,
 - 7. New gas meters and gas piping, and
 - 8. Decommissioning of existing underground storage tanks and fuel lines.
- D. Based on current fuel cost and past usage the estimated annual utility savings are approximately \$1.8 million.
- E. The estimated total cost to complete this project is \$9.12 million.
- F. Past boiler burner retrofit projects have resulted in considerable fuel consumption savings, as well as operational cost savings due to reduced maintenance demands related to the oil burners.
- G. The price of fuel oil and diesel has seen significant cost escalation in the last decade as compared to natural gas.
- H. Natural gas is less than half the cost on a per energy unit basis versus fuel oil at current rates.
- I. Local sourcing of PS300 is becoming more difficult and will likely drive heating costs up as supply sources diminish.
- J. PPS is the largest consumer of PS300 in the Portland Metro area, annually consuming about one million gallons and emitting nearly 10,000 equivalent metric tons of CO₂ into neighborhood communities throughout Portland.
- K. Staff has developed a preliminary project delivery plan that provides for most of this work to be completed prior to the fall 2012 heating season. The plan is predicated on pre-ordering materials and implementing a phased contracting strategy. If all of the work can be completed prior to the fall heating season, the District will immediately realize in FY 2012-13 full cost savings from the burner conversion project.

RESOLUTION

1. Based on the findings detailed in the recitals above, the Board of Education authorizes staff to:
 - a. Convert 47 district facilities from fuel oil or diesel boiler burners to natural gas boiler burners.
 - b. This action is predicated on a Board of Education authorization of a Boiler Burner Conversion project financing plan.

C. Sylvester/T. Magliano



PORTLAND PUBLIC SCHOOLS

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Superintendent's Recommendation to the Board and Staff Report

Title: PPS Capital Debt Refinancing

Board Meeting Date:
January 17, 2012

**District Priority: Modernize Infrastructure
Stable Operating Model**

Department: Finance

**Executive Committee Lead: Neil Sullivan
Staff Lead: David Wynde, Deputy CFO**

Issue Statement

PPS has three capital finance issues that we need to address in 2012: the Fund 405 loan, the option to acquire Rosa Parks School, and funds for the possible boiler burner replacement work.

All three of these would have been funded by the May 2011 capital bond.

They are all critical funding needs that we have to address in the next 12 months.

The aggregate financing need for these three projects is almost \$44 million. The financing we propose to obtain to address these needs will be structured to provide maximum flexibility for PPS, and to reduce the costs of this borrowing.

Background

The Fund 405 loan is \$25.75 million and it comes due on February 28. This debt was authorized in February 2009 to fund immediately required capital work, such as roof replacement and modular classrooms, as well as preparation for a capital bond, such as the seismic, historic and ADA assessments, as well as building internal capacity and controls to manage a major construction program. The board decided to fund this work with borrowed funds and the loan was initially financed by an interfund loan from the General Fund. This was replaced with an external loan from Bank of America in February 2011.

When the new Rosa Parks School was built in 2003/4 it was funded with a number of financial sources including New Market Tax Credits. This financing is complex and includes initial ownership of the property by a special purpose entity, with PPS leasing the school for seven years while the investors are able to realize the benefits of the tax credits. PPS has to notify the owner of our intent to purchase Rosa Parks at a cost of \$8.8 million with payment is due at the end of October 2012. Although there is a provision for PPS to continue to lease the property (at an increased rate) the transaction was structured with the clear understanding that PPS would buy the building at the end of the seven year lease period.

As outlined in a staff report from the COO, the boiler burner project involves replacement of oil-fired burners in boilers in 47 schools with natural gas-fired burners, and some related work such as seismic upgrades to chimneys made possible by the change in fuel used. This work is estimated to cost \$9.1 million and can commence this coming spring with major work done this summer. This work could wait for passage of a capital bond but we are recommending immediate action and additional borrowing to fund the work. That is because we will be able to begin to recognize the cost savings immediately if we start the work now. We are proposing to fund this as a capital project so that we can use these savings to offset a portion of the budget deficit for the 2012-13 school year.

The aggregate financing need for these three projects is almost \$44 million. The financing we propose will be structured to provide maximum flexibility for PPS, and to reduce the costs of this borrowing.

PPS operating cash flow over the course of the school year results in us having a substantial cash position for many months, with a high in November after local property tax payments are made. We invest these funds and earn interest on those investments. Currently, and for the foreseeable future, interest rates for investments are much lower than the interest we have to pay on borrowings. If we structure our capital debt as a line of credit it will enable us to use our investment cash to fund some of this debt internally through interfund loans, while also providing us the ability to fund it externally as circumstances require.

The Fund 405 loan has to be funded externally in order to maintain the ability to refinance it with non-taxable debt and repayment of the current loan would, therefore, be funded under the line. But we can fund the other two borrowing needs internally, for up to 18 months, if we have cash available, and thus avoid the negative arbitrage that would result from term debt.

If we establish the term of the line of credit at 24 months that takes us out to February 2014, which means that a capital bond could serve as the takeout repayment funding for this with elections in November 2012, or May or November 2013 all available as options for PPS and the board.

Related Policies/Fiscal Impact

As a general rule of finance, it is good practice for PPS to finance capital needs with capital funds and to preserve operating funds for educational program needs.

Fund 405 loan: There is no fiscal impact of refinancing the Fund 405 loan, assuming that the interest rate on the new line is the same as the current borrowing cost. That is a reasonable assumption based upon our conversations with prospective lenders. The debt is currently outstanding.

Rosa Parks purchase: PPS will save more than \$330,000 in the General Fund in 2012-13 compared to 2011-12 if/when we purchase the school. Currently, PPS is paying \$42,024.34 each month in lease rent to the special purpose entity that owns the property. This amount will rise to \$71,980.50 each month if PPS does not purchase the property. Exercising the option to purchase in October will save \$336,000 in 2012-13 (8 months of rent) compared to 2010-11. The actual budget impact of not buying the school is higher because of the increased rent. Using cash on hand to fund the purchase and not using the line of credit will result in interest costs in the capital fund of approximately \$30,000 in 2012-13.

Boiler burner project: As detailed in the staff report from the Chief Operating Officer, the boiler burner project will save \$1.8 million in fuel costs at current prices. This estimate does not include any efficiencies from the switch (i.e. it assumes the same volume of energy use, but we save money because

gas is cheaper than oil). Based upon experience at sites which have already switched, it appears that there might be lower volume of energy use which would increase the savings. While staff is committed to a rapid implementation of this work it is ambitious to assume that all sites will be completed in time to be ready for 2012-13. We are underwriting this project on the basis of completion of two-thirds of the work in that timeframe. Thus we estimate that fuel costs in 2012-13 would be \$1.2 million less than in 2010-11. Funding this work through a line of credit allows us the flexibility to only fund the debt as needed. This is of particular value given the number of sites involved and the relative uncertainty of timing for the work as a whole.

Community Engagement

There has been no community engagement activity around this specific action: the financing for these three capital projects.

However, the decisions to fund the capital work through Fund 405 and to borrow money to do that were all taken in public meetings by the board of education. In addition, there was community engagement associated with the May 2011 capital bond, which included all of these projects.

Board Options

Fund 405 loan: This loan comes due at the end of February. PPS does not have sufficient funds to pay this off. The line of credit is the best option because it allows for refinancing of the debt at a modest cost and preserves the original intent of the board, which is to repay this loan from proceeds of a capital bond.

The alternative is to start repaying this debt. This would be challenging to accomplish in a sustainable way without impact on the general fund.

Rosa Parks School: In theory the board has the option to not buy the school. That is not a realistic choice. The option to buy is one-time and so must take place in 2012. PPS does have sufficient funds to just pay for the school but that would require depletion of general fund reserves and staff is not recommending that course of action.

The line of credit is the best option because it allows for financing the purchase option through a capital fund at a modest cost and preserves the original intent of the board, which is to finance this purchase with proceeds of a capital bond.

The alternative is to start repaying the debt. This would be possible but would require substantial use (approximately \$1 million per year for 10 years) of capital funds from the Construction Excise Tax, for example. This would significantly reduce funds available for the Capital Asset Renewal Program.

Boiler burner project: The case for moving forward with this work is compelling but it does require borrowing to accomplish the work unless the decision is made to deplete the general fund reserve, which is not recommended.

The real choice is whether to finance this as a capital project or to finance it within the general fund using the utility savings for debt service. If we do this in the general fund we could repay the cost of the

work within 6 years.

Our recommendation is to finance this as a capital project and use the capital fund line of credit to pay for the work. This maintains the integrity of funding capital projects with capital dollars and allows PPS to realize savings of more than \$1 million in the general fund in 2012-13. The disadvantage is that this adds to the total existing debt that will have to be repaid under a future capital bond.

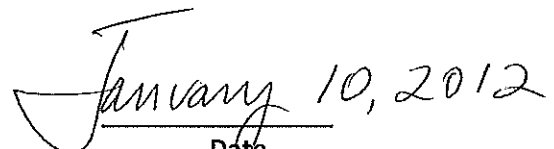
Staff Recommendation

It is recommended that the Board direct staff to proceed with establishing a two-year line of credit in an amount sufficient to fund the three financing needs through the capital fund. If the board agrees with this recommendation, staff will bring an authorizing resolution for approval through a board resolution on January 23rd.

I have reviewed this staff report and concur with the recommendation to the Board.



Carole Smith
Superintendent
Portland Public Schools



Date

ATTACHMENTS

None