

BOARD OF EDUCATION

Portland Public Schools
WORK SESSION
September 16, 2014

BOARD AUDITORIUM

Blanchard Education Service Center
501 N. Dixon Street
Portland, Oregon 97227

***Note:** Those wishing to speak before the School Board should sign the public comment sheet prior to the start of the meeting. No additional speakers will be accepted after the sign-in sheet is removed, but testifiers 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 those testifying must abide by the Board's Rules of Conduct for Board meetings.*

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

This meeting may be taped and televised by the media.

AGENDA

1. **PUBLIC COMMENT** 6:00 pm

2. **ENDING FUND BALANCE/BEGINNING FUND BALANCE AND BUDGET CALENDAR** 6:20 pm

3. **ADJOURN** 7:30 pm

Portland Public Schools Nondiscrimination Statement

Portland Public Schools recognizes the diversity and worth of all individuals and groups and their roles in society. The District is committed to equal opportunity and nondiscrimination based on race; national or ethnic origin; color; sex; religion; age; sexual orientation; gender expression or identity; pregnancy; marital status; familial status; economic status or source of income; mental or physical disability or perceived disability; or military service.



Board of Education

Staff Report to the Board

Board Meeting Date: September 16, 2014

Executive Committee Lead: Ryan Dutcher
Interim Chief Financial Officer

Department: Finance

Presenter/Staff Lead: David Wynde
Deputy CFO & Budget Director

SUBJECT: Ending fund/Beginning Fund Balance Update and Recommendations for Additional Investment in School Staffing and Three Priority Areas.

BACKGROUND

Summary:

This report includes the annual revised estimate of the ending fund balance for FY 2013/14 and update on school staffing for FY 2014/15. All of the budgeted set aside for school staff for 2014/15 has been used as part of our balancing processes in April and July/August. Based upon higher than expected property tax receipts, a significant positive prior year state school fund adjustment for FY 2012/13, and lower than budgeted expenditures, primarily in healthcare and benefits, the revised beginning fund balance is \$16.8 million more than in the FY 2014/15 adopted budget. Staff is recommending \$5.9 million be used to bring reserves/uncommitted contingency up to 5% in preparation for the FY 2015/16 budget development process. We also recommend that \$5.8 million be used to add \$2 million in additional school staffing right away and \$3.8 million is designated to provide additional resources for the three priority areas:

- 1) ensuring that all students are reading at benchmark by the end of third grade
- 2) improving high school graduation and completion rates
- 3) eliminating disproportionality in out of school discipline between white students and students of color and reducing out-of-school discipline for all students by 50 percent.

FY 2014/15 Budget Development and Adoption:

On March 17, 2014 the Superintendent proposed school staffing for the 2014/15 school year that included the addition of 30 teaching positions because of forecasted increase in student enrollment and 150 new teaching positions as a result of an agreement with the Portland Association of Teachers. These 150 positions were allocated 70 to elementary schools (PK-8), 50 to high schools and 30 to special education. Each year a number of positions are held back as set aside for future allocation to schools to resolve issues such as challenges offering the core program, changes in student enrollment numbers, high school scheduling support, and other site-specific anomalies. This year there were 37 positions in this set aside in June.

On March 31, 2014 the Superintendent proposed a budget for FY 2014/15 for School District No. 1J, Multnomah County, Oregon ("District") based upon current estimates for beginning fund balance and revenues. The expenditures proposed included the additional teaching positions described above.

In April additional allocations were made to schools from the set aside positions to resolve identified issues at specific schools.

**Reviewed and Approved by
Executive Committee Lead**

On May 19, 2014, by way of Resolution No. 4918, and under the provisions of Oregon Local Budget Law (ORS Ch. 294), the Budget Committee for the District approved the FY 2014/15 budget and imposed taxes.

On June 23, 2014, by way of Resolution No. 4934, the Board adopted the FY 2014/15 budget, appropriated funds and imposed taxes for FY 2014/15. The adopted budget included a beginning fund balance of \$34.9 million and uncommitted contingency of \$19.7 million (3.9% of total expenditures). Board policy requires uncommitted contingency of 3% and the Board has an aspirational goal of 5%.

Post-Budget Adoption Process:

Each year a number of positions are held back as set aside for future allocation to schools to resolve issues such as challenges offering the core program, changes in student enrollment numbers, high school scheduling support, and other site-specific anomalies. This year there were 37 positions in this set aside in June. In July and August of this year additional allocations were made to school staffing to resolve issues at specific schools and all of the positions set aside in June have been allocated to schools.

As staff completed the annual process of the accounting for FY 2013/14 (at the end of August 2014) a revised estimate of the ending fund balance for that year and, by extension, of the beginning fund balance for FY 2014/15 was made. This estimate is still subject to revisions as part of the independent financial audit of FY 2013/14 financial statements.

Revised Fund Balances

Revenues above budget	\$9,500,000
<i>Higher property tax collections (\$9,700,000)</i>	
Expenditures below budget	\$7,900,000
<i>Lower healthcare/benefits (\$6.2 million)</i>	
<i>Lower expenditures (<\$4 million, <1% of budget)</i>	
Transfers lower than budget	<u>\$1,000,000</u>
Change in Ending Fund Balance	\$18,400,000
Less Budgeted Difference	- <u>\$1,600,000</u>
<u>Change in Beginning Fund Balance</u>	<u>\$16,800,000</u>

Revenues were above budget by \$9.5 million – all of which is attributable to higher local property tax collections. About \$5 million of this was recognized as part of the budget development but was expected to be offset under the state school funding mechanism. The state school fund is made up of local property tax collections and the legislative appropriation for K-12 education. The amount to be allocated to each school district is determined under a complex formula-- the most significant element of which is weighted student numbers. It is expected that any increase in local property tax revenues received by PPS would be offset by a reduction in the amount of funds received by the state.

The calculation of state school fund allocations is estimated and revised throughout any fiscal year and a final adjustment is made by the end of the following fiscal year. Late in FY 2013/14 PPS received notice of the final adjustment for FY 2012/13. This was a \$3 million credit and essentially offset the anticipated offset.

About \$5 million of the higher local property tax receipts were not anticipated and reflect continuing strong collections and receipts throughout the year. The state school fund

reconciliation process for FY 2013/14 will take this higher revenue into account and the final FY 2013/14 adjustment for PPS may result in a negative adjustment for PPS. Staff recommends that we retain this \$5 million that is in question in reserve until the FY 2013/14 final adjustment is determined.

Expenditures were \$7.9 million lower than budget. The most significant variance was in healthcare and benefits which was \$6.2 million below budget. \$2.1 million of this was a result of the contract settlement with PAT and the lower healthcare costs were offset by higher salary expenses. The remaining variance in healthcare and benefits is because of lower costs for unemployment insurance and retiree health benefits as well as the impact of vacancy savings on this category.

All other expenses were less than \$4 million under budget, which is less than 1% of the total 2013/14 budget. This is a reasonable operating margin given that the key requirement of the budget is to ensure that we have adequate funds appropriated to cover expenditures.

In the final budget amendment we added the authority for a transfer of \$1 million to cover a possible shortfall in capital bond taxes. This was not needed.

Overall this equates to the ending fund balance being \$18.4 million more than budgeted. We had already factored in a \$1.6 million difference for our FY 2014/15 beginning fund balance so the variance in that number is \$16.8 million.

Considerations Moving Forward:

2015/16 Budget

Inflation Factor @ 3%	\$15 million
Full-day kindergarten to general fund	\$11 million
Cover spend-down of reserves	<u>\$ 9 million</u>
Total Additional Need	\$35 million

The budget, as adopted in June, already included expenditures that “spend down” the beginning fund balance by \$13.7 million, of which \$4.7 million is one-time commitments. The remaining \$9 million in ongoing costs will require additional funding to sustain these investments in FY 2015/16.

There is also uncertainty about funding for FY 2015/16 because:

- 1) it is the first year of the biennium and the appropriation for K-12 education has not been determined by the state legislature
- 2) full-day kindergarten will be fully funded in the general fund for the first time. We estimate that this will add \$11 million in expenditures to the general fund for PPS and there is no assurance that the state will increase funding to fully cover this.

For these reasons the superintendent is recommending that \$5.9 million be allocated for the uncommitted contingency in the FY 2014/15 budget bringing reserves up 5% (\$25.6 million) and in line with the board policy’s goal.

As mentioned above, the final reconciliation of the FY 2013/14 state school fund will not happen until late in FY 2014/15. About \$5 million of the higher than expected property tax receipts received in FY 20114/15 contributed to the higher than forecast ending fund balance. These dollars might be lost under the prior year adjustment.

The superintendent recommends increasing the uncommitted contingency by an additional 1% (\$5 million) to 6% (\$30.6 million) to cover this risk.

After each of these adjustments to uncommitted contingency, the higher beginning fund balance would still allow for \$5.8 million of additional expenditures in FY 2014/15.

The superintendent recommends using this \$5.8 million to add additional staffing to schools to resolve staffing issues (\$2 million), and to increase investment in support of the three priorities to improve outcomes for PPS students.

RELATED POLICIES / BOARD GOALS AND PRIORITIES

Board policy (8.10.025-P Contingencies and Reserves) includes the provision that the board fund and maintain an operating contingency in the general fund at a minimum is 3% of annual expenditures. Further, it has been a stated aspirational goal to increase this uncommitted operating contingency to 5%.

PROCESS / COMMUNITY ENGAGEMENT

The 2014/15 budget was developed with extensive community engagement and public process (http://www.pps.k12.or.us/files/budget/2014_15_PPS_Adopted_Budget1.pdf p.31). These actions and recommendations are aligned with the strategies underlying the adopted budget and areas of focus identified in the Superintendent's evaluation in May 2014.

ALIGNMENT WITH EQUITY POLICY IMPLEMENTATION PLAN

Increasing investment in the three priority areas (i.e. third grade reading; high school graduation; reduction in disproportionate discipline) is strongly aligned with the racial education equity policy.

BUDGET / RESOURCE IMPLICATIONS

Immediate actions and implications for FY 2014/15 are discussed above.

In addition, there are many other estimates in FY 2014/15 budget that will change (for example, local option taxes, actual teacher salaries, uncertainty around PERS).

At a November board meeting/work session staff will provide a FY 2014/15 budget update (including property taxes and student enrollment).

In January, after the completion of the financial audit for FY 2013/14 staff will be preparing an amendment to the FY 2014/15 budget.

The proposals outlined in this report and the attached resolution allow for immediate action to address continued school staffing needs and add resources in support of key initiatives to improve student outcomes.

At the same time PPS is building a reasonable level of reserves to address the challenges of the FY 2015/16 budget and also providing for any negative outcome of the state school fund reconciliation for FY 2013/14.

NEXT STEPS / TIMELINE / COMMUNICATION PLAN

This topic and the associated resolution are scheduled for deliberation and vote at the September 23, 2014 board meeting.

If approved by the board, staff will add \$2 million of positions for school staffing as quickly as possible to resolve specific school staffing challenges related to student enrollment numbers, class size and high school student schedules.

Staff will also develop and implement specific plans for up to \$3.8 million of additional investment in the three priorities of third grade reading, high school graduation and reducing disproportionate discipline.

All of these changes to the FY 2014/15 will be reflected in a budget amendment that, as part of our regular annual budget process, will be prepared and submitted after completion of the FY 2013/14 financial audit that will establish the exact amount of the FY 2013/14 ending fund balance and, by extension, the FY 2014/15 beginning fund balance. This timing will also allow for the exact allocation of these funds to the specific budgets.

Staff will report to the board at a work session in October on the use of these funds – both additional school staffing and the priority investment actions.

QUESTIONS FOR BOARD DISCUSSION

1. Do you support the idea of increasing the school staffing set aside allocation by \$2 million?
2. Do you support the additional allocation of \$3.8 million for third grade reading, high school graduation and a reduction disproportionate discipline?
3. Do you agree with the recommendation to increase uncommitted contingency to 5% of total expenditures to strengthen the district's overall financial position and provide additional resources to offset the uncertainty of funding for FY 2015/16 given the need to maintain current service level (that includes \$9 million use of reserves), the uncertainty of funding full-day kindergarten in the general fund and the unknown state appropriation for the coming biennium?
4. Do you agree with the recommendation to increased reserves/uncommitted contingency by another 1%/\$5 million to cover the eventuality that these funds might be a reduction in our state school fund receipts when the FY 2013/14 prior year adjustment is calculated?

ATTACHMENTS

1. 2015/16 Budget Development Calendar
2. Draft Resolution on Additional Investment in Schools in the FY 2014/15 Budget for School District No. 1J, Multnomah County, Oregon
3. Summary of Set-Asides Allocated to Schools As of 9/5/14

2015/16 Budget Development Calendar

Date	Activity
July/August	Second update to 2014/15 Staffing Allocation to Schools
September 23	Publish Budget Calendar. Update FY 2013/14 ending fund balance.
September/October	<u>Board Meeting/Work Session</u> : FY 2014/15 budget updates (staffing priorities) Third update to Staffing Allocation to Schools
September 9	<u>Board Work Session</u> : Dual Language Immersion
September - March	<u>Board Work Sessions</u> (include budget implications of programs and services)
October	<u>Board</u> appoints Citizen's Budget Review Committee (CBRC) Members
November - May	CBRC - Discuss budget process, forecast, school staffing, Local Option Levy, and recommendations on Proposed Budget
November - February	District Staffing Team - School Staffing work sessions
November/December	Budget Prioritization Discussion/Exercise: Coalition of Communities of Color, Achievement Compact Advisory Committee, District Employee Leadership Stakeholder Team, Superintendent's Student Advisory Committee, PAPSA
November	<u>Board Meeting/Work Session</u> : 2014/15 budget update (including property taxes and student enrollment)
December 2	<u>Board Work Session</u> : Budget Prioritization Exercise
January 13	<u>Board Work Session</u> : 2014/15 Budget Amendment discussion & 2015/16 Forecast
January 27	<u>Board Meeting</u> : 2014/15 Budget Amendment approved
January - March	Budget Leadership Team work sessions
March 10	Superintendent presents school staffing and preliminary budget plan to board
March 11	Initial 2015/16 Staffing Allocations to Schools
March - April	Staffing Process - Submission, Review, and Approval
March 11 – March 30	Superintendent Listening Sessions (with Board members): PTA, CBRC, Coalition of Communities of Color, Achievement Compact Advisory Committee, District Employee Leadership Stakeholder Team, Superintendent's Student Advisory Committee, PPS staff,
March 23 - March 27	Spring Break
March 31	Proposed Budget - <u>Board Meeting</u> (Budget Committee): Budget Committee receives the Proposed Budget and Budget Message
March	<u>Board Meeting/Work Session</u> : FY 2014/15 budget update (including FY 2013/14 state school fund prior year adjustment)
April – May	<u>Board</u> as Budget Committee holds public hearings[TBD]. State law requires at least one Board commitment to hold at least one in a language other than English.
April - May	<u>Board Meetings/Work Sessions</u>
April	First update to 2015/16 Staffing Allocations to Schools

2015/16 Budget Development Calendar

May 12	<u>Board Work Session</u> : CBRC Reports to Board
May 26	Approved Budget - <u>Board Meeting</u> (Budget Committee): Budget Committee discussion and vote to approve a budget
June 1	Submit Approved Budget to TSCC
June 23	Adopted Budget - TSCC Hearing; TSCC certifies the Approved Budget; <u>Board Meeting</u> : Discussion on Approved; Board votes to Adopt the FY 2015/16 budget Final amendment FY 2014/15 budget
July	Preliminary estimate FY 2014/15 ending fund balance.
July/August	Second update to 2015/16 Staffing Allocations to Schools
September	Revised pre-audit estimate FY 2014/15 ending fund balance
September/October	Third update to 2015/16 Staffing Allocations to Schools

Summary of Set Asides Allocated to Schools as of 9/5/2014

9/12/2014

This is a summary of the staffing allocations made after the Proposed Budget

School	Kindergarten	K8 Program	HS Program	Multiple Locations	Grand Total	Rationale
Access				0.75	0.75	Core program support
Alliance			0.19		0.19	Increase Vice Principal hours
Astor		0.50			0.50	Core program support: compacted math
Beach		0.50			0.50	Core program support: compacted math
Beaumont		1.00			1.00	Immersion
Benson			0.50		0.50	Increase classes for students and reduce teacher student load
Beverly Cleary		0.80		2.60	3.40	Core program support and SMS
Boise-Eliot/Humboldt		0.25			0.25	Core program support
Bridger		1.00			1.00	Immersion
Bridlemile		0.10			0.10	Core program support
Buckman		0.56			0.56	Core program support
Capitol Hill	-0.50	0.13			-0.38	Lower Kindergarten numbers and clerical support
Chapman	0.50				0.50	Synergy enrollment higher than projected at Kindergarten
Cleveland			1.50		1.50	Synergy enrollment higher than projected, increase classes for students, and reduce teacher student load
Creative Science		0.23			0.23	Core program support
da Vinci		0.45			0.45	Core program support
Duniway	0.50	0.17			0.67	Core program support. Synergy enrollment higher than projected at Kindergarten.
Faubion	-0.25	0.12			-0.13	Core program support
Franklin			1.75		1.75	Synergy enrollment higher than projected, increase classes for students, and reduce teacher student load
George		0.50			0.50	Partnership with County to provide Social Worker focused on attendance
Glencoe	-0.50	0.07			-0.43	Core program support. Lower Kindergarten numbers.
Grant			1.50		1.50	Synergy enrollment higher than projected, increase classes for students, and reduce teacher student load
Harrison Park	0.50	0.03			0.53	Synergy enrollment higher than projected at Kindergarten
Hayhurst	0.50	0.49			0.99	Synergy enrollment higher than projected due to Stephen's Creek Crossing
Headstart		2.00			2.00	Coverage for teacher planning within School Day
Irvington		1.07			1.07	Core program support
Jefferson			0.25		0.25	STEM support
Kelly		0.08			0.08	Core program support
King		1.82			1.82	Immersion and Assistant Principal
Laurelhurst		0.25			0.25	Core program support
Lee	0.00	0.80			0.80	Core program support and ESL
Lewis	0.00	0.03			0.03	Core program support

Summary of Set Asides Allocated to Schools as of 9/5/2014

9/12/2014

This is a summary of the staffing allocations made after the Proposed Budget

School	Kindergarten	K8 Program	HS Program	Multiple Locations	Grand Total	Rationale
Lincoln			3.00		3.00	Synergy enrollment higher than projected, increase classes for students, and reduce teacher student load
Llewellyn		0.40			0.40	Core program support
Madison			1.50		1.50	Synergy enrollment higher than projected, increase classes for students, and reduce teacher student load
Maplewood	-0.50	0.50			0.00	Core program support. Lower Kindergarten numbers.
Markham		0.38			0.38	Core program support
Marysville		0.25			0.25	Core program support: compacted math
MLC		0.60			0.60	Elective Coordinator / Scheduling Support
Peninsula		0.50			0.50	Core program support
Rieke	0.25	0.09			0.34	Core program support and clerical support
Roosevelt			1.00		1.00	Synergy enrollment higher than projected, increase classes for students, and reduce teacher student load
Rosa Parks		0.10			0.10	Core program support
Roseway Heights	0.50	0.25			0.75	Vietnamese Immersion K; core program support
Scott	0.50				0.50	Synergy enrollment higher than projected at Kindergarten
Skyline	0.25	0.42			0.67	Core program support: compacted science math
Stephenson		0.31			0.31	Core program support
Vestal	0.50	1.25			1.75	Core program support: compacted math, Assistant Principal, Synergy enrollment for Kindergarten higher than projected
West Sylvan				0.66	0.66	Multiple locations
Wilson			2.00		2.00	Synergy enrollment higher than projected, increase classes for students, and reduce teacher student load
Woodmere		0.10			0.10	Core program support
Grand Total	2.25	18.09	13.19	4.01	37.54	

Summary of Set Asides Allocated to Schools as of 9/5/2014

9/12/2014

This is a summary of the staffing allocations made after the Proposed Budget

School	Kindergarten	K8 Program	HS Program	Multiple Locations	Grand Total	Rationale
Category	April- July	July- September 12	Grand Total			
Kindergarten	-0.50	2.75	2.25			
K8 Program	15.66	2.43	18.09			
HS Program	1.00	12.19	13.19			
Multiple Location	3.76	0.25	4.01			
Grand Total	19.92	17.62	37.54			

RESOLUTION No. XXXX

Additional Investment in Schools in the FY 2014/15 Budget for School District No. 1J, Multnomah County, Oregon

RECITALS

- A. On March 17, 2014 the Superintendent proposed school staffing for the 2014/15 school year that included the addition of 30 teaching positions because of forecasted increase in student enrollment and 150 new teaching positions as a result of an agreement with the Portland Association of Teachers. These 150 positions were allocated 70 to elementary schools (PK-8), 50 to high schools and 30 to special education. Each year a number of positions are held back as set aside for future allocation to schools to resolve issues such as challenges offering the core program, changes in student enrollment numbers, high school scheduling support, and other site-specific anomalies. This year there were 37 positions in this set aside in June.
- B. On March 31, 2014 the Superintendent proposed a budget for FY 2014/15 for School District No. 1J, Multnomah County, Oregon ("District") based upon current estimates for beginning fund balance and revenues. The expenditures proposed included the additional teaching positions described above.
- C. In April additional allocations were made to schools from the set aside positions to resolve identified issues at specific schools.
- D. On May 19, 2014, by way of Resolution No. 4918, and under the provisions of Oregon Local Budget Law (ORS Ch. 294), the Budget Committee for the District approved the FY 2014/15 budget and imposed taxes.
- E. On June 23, 2014, by way of Resolution No. 4934 the Board adopted the 2014/15 budget, appropriated funds and imposed taxes for FY 2014/15. The adopted budget included a beginning fund balance of \$34.9 million and uncommitted contingency of \$19.7 million (3.9% of total expenditures). Board policy requires uncommitted contingency of 3% and the Board has an aspirational goal of 5%.
- F. In July and August of this year additional allocations were made to school staffing to resolve issues at specific schools and all of the positions set aside in June have been allocated to schools.
- G. As staff completed the annual process of accounting for FY 2013/14 (at the end of August 2014) a revised estimate of the ending fund balance for that year and, by extension, of the beginning fund balance for FY 2014/15 was made. This estimate is still subject to revisions as part of the independent financial audit of FY 2013/14 financial statements. Based upon higher than expected property tax receipts, a significant positive prior year state school fund adjustment for FY 2012/13, and lower than budgeted expenditures, especially for healthcare and benefits, the revised beginning fund balance is \$51.7 million, which is \$16.8 million more than in the FY 2014/15 adopted budget.
- H. The budget, as adopted, already includes expenditures that "spend down" this beginning fund balance by \$13.7 million. There is also uncertainty about funding for FY 2015/16 because it is the first year of the biennium and the appropriation for K-12 education has not been determined by the state legislature, and full-day kindergarten will be fully funded in the general fund for the first time. For these reasons, the superintendent is recommending that the uncommitted contingency in the FY 2014/15 budget should be increased to 5% (\$25.6 million) in line with the board policy's goal.
- I. The final reconciliation of the FY 2013/14 state school fund will not happen until late in FY 2014/15. About \$5 million of the higher than expected property tax receipts received in FY 2014/15 and that contributed to the higher than forecast ending fund balance, might be lost under this prior year adjustment. The superintendent recommends increasing the uncommitted contingency by 1% (\$5 million) to cover this risk.

J. After each of these adjustments to uncommitted contingency the higher beginning fund balance would still allow for \$5.8 million of additional expenditures in FY 2014/15. The superintendent recommends using these funds to add additional staffing to schools right away to continue to have positions available to allocate to schools to resolve staffing issues, and to increase resources in support of the three priorities to improve outcomes for PPS students.

RESOLUTION

1. The Board directs the Superintendent to increase school staffing by \$2 million immediately.
2. The Board directs the Superintendent to add up to \$3.8 million investment in the three priorities:
 - a. ensuring that all students are reading at benchmark by the end of third grade
 - b. improving high school graduation and completion rates
 - c. eliminating disproportionality in out of school discipline between white students and students of color and reducing out-of-school discipline for all students by 50 percent.
3. The Board acknowledges that these increased investments will be funded by a beginning fund balance that is higher than that in the budget adopted on June 23, 2014, and that uncommitted contingency is expected to be 6% of total expenditures after these increases.
4. The Board directs the Superintendent to include the full details of these changes in the first budget amendment to the 2014/15 budget, which is likely to be presented to the Board for approval in January 2015 after the completion of the audit of the FY 2013/14 financial statements of the District.

R.Dutcher/D.Wynde