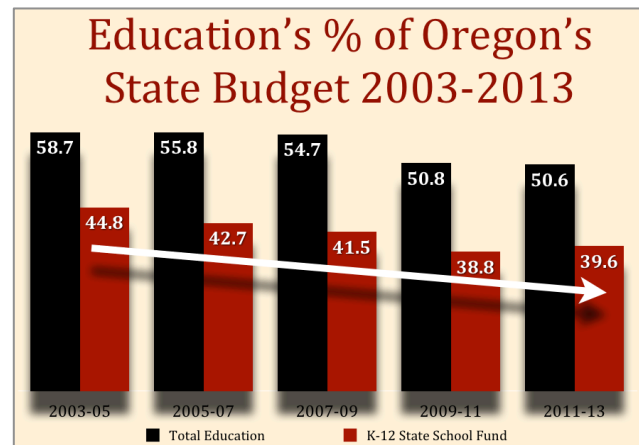


Preliminary Budget Workshop 2012-13 Executive Summary By Superintendent Ron Wilkinson January 24, 2012

As we prepare for our 2012-13 budget, we are struggling with stark financial times in the State of Oregon. Although we are all aware that state dollars will continue to be very tight, a major concern continues to be prioritization of the available dollars. The share of Oregon's state general fund and lottery allocated to education declined steadily from 2003-11. For 2011-13, the percentage of the state budget allocated to education, including specifically to K-12, increased only slightly. In actual dollars, however, K-12 is allocated to receive \$416 million less in the current biennium than it did just a few years ago (\$5.712 billion in 2011-13 compared to \$6.128 billion in 2007-09), and \$38 million less than it did in 2009-11. Higher education and community colleges are also expected to receive significantly less funding in 2011-13. The chart shows the trend line of the percentage share that K-12 has been allocated each of the last four bienniums with a slight percentage increase for 2011-13.



Revenues for 2012-13:

Overall, we expect our 2012-13 revenues to be flat to slightly higher from 2011-12. It appears that the State support component of our formula revenue will not change from the Legislature's close of session allocation. For the current biennium, the State allocated slightly more in year one of the biennium (2011-12) than it will in year two (2012-13). However, the local revenue component of the formula revenue will increase by a small amount in year two, providing us with a little more overall formula revenue in 2012-13 than in 2011-12. In addition, we project enrollment growth between 50-100 students, which will provide additional revenue.

Cost Drivers:

In terms of cost drivers, the impacts of rising employee costs pose the greatest impact on the 2012-13 budget. Continuing concessions of our bargaining groups for the current year allowed us to ultimately balance the budget, albeit at a lower staffing level. Currently our teachers' contract includes the temporary reduction of six days and our other groups are all working on shortened contracts. We will begin collective bargaining in the next few weeks, but we recognize that "status quo" for 2012-13 would restore those days and honor the step increases our employees have earned.

The district will again feel the effects of the increases in PERS costs. After significant reductions in staffing, approximately \$5 million in additional retirement costs impacted the current budget. Representative Jason Conger is working on a bill for the upcoming

Legislative “short” session to provide some relief for next year, but any reliance on those potential savings would be highly speculative and not prudent at this time.

We have also deferred the regular purchase of textbooks and technology for the past two years. The impacts of these unsustainable decisions are starting to come home to roost as equipment is beginning to fail, and we are falling further behind in the textbook adoption cycle. Finally, we grew by 130 students this year and are expected to grow another 50-100 next year, so some additional teaching positions will be necessary to maintain even our current level of increased class sizes.

As you can see, many of those potential cost drivers are subject to collective bargaining, School Board decisions, or Legislative action.

Fund Balance:

A key to balancing the budget in the past few years has been by using any fund balance in excess of the Board policy minimum (next year 4.25%). The good news is that we have had additional balance to use as a stopgap resource to minimize the impact of the significant reductions in expected revenue. The bad news is that we have used an unsustainable resource to balance the budget. We have been able to cover that “burn” in the past two years through aggressive budget management and some late revenue adjustments from the state.

Three major factors will allow us to end 2011-12 with approximately \$4 million more in fund balance than budgeted. First, we ended the 2010-11 school year with approximately \$1.7 million more than originally projected. This is due to unanticipated state resources, slightly higher average daily membership (ADM) and under spending. Second, our formula revenue is higher than budgeted, because the State chose to distribute a higher portion of the State School Fund in the first year of the biennium than we budgeted and we have more students than projected. Third, even with the staff we added for extra students, we project that our expenditures will be less than budgeted, mostly in health insurance costs.

By policy, we must budget a fund balance for 2012-13 of at least 4.25% of revenues. This means that most of the approximately \$4 million additional fund balance will be available for use in 2012-13. These additional funds available for 2012-13 will fill most of the gap we were anticipating due to the \$4.3 million fund balance used to balance in 2011-12, but must be viewed again as a “one-time” source of revenue and will again create a gap for the 2013-14 school year.

Much as I have done in recent years, I intend to identify a "pathway" that will lead to a balanced budget. My plan is not complete, but my hope is to find a "pathway" that avoids further increases to class sizes or further reductions of contract days.