

2012-13 BUDGET MESSAGE

2011-12 has been a year of significant transition for Crook County School District (CCSD). The District has a new superintendent, one new Board member, a new shared business manager and we are actively recruiting for a new Business Manager.

This equates to a significant change in District leadership. In spite of, and in fact because of the changes, the District continues to implement positive improvements in educational programs and improved relations with the Board and community members. Although these personnel changes have been difficult, they have also been quite helpful as the District addresses ongoing financial challenges.

As a community we continue our slow economic recovery from the Great Recession - Crook County unemployment remains above 15%. The impact of the recession on public education remains threatening. The financial outlook and therefore the outlook for educational programs across Oregon schools is not very positive. That stated, past decisions by the CCSD board working in close cooperation with District employee groups places CCSD in significantly better financial position than many other districts across the state.

Because of those past budget and program decisions and the frugality of District employees during the 2011-12 budget year, we are able to propose a 'status quo' budget for 2012-13. It should be noted that even with the use of one-time funds and cost increases beyond the District's control the status quo budget remains in jeopardy.

The total District gross budget for next year is \$40.4 million. This amount includes the transfer of monies between funds which results in overstating the actual budget. For this reason we normally refer to the net budget which removes the double-counting of the fund transfers. The net budget for next year is \$37.3 million.

The General Fund budget, which is the fund that provides the most opportunities for discretion in decision-making, is \$28.5 million.

Status quo does not mean 'standing still' or 'settling'. The District will continue to increase the effectiveness of the educational programs and in limited cases will expand programs. The budget is structured to support our most current strategic plan, which is included in the budget document. Some of the significant budget decisions are:

- The District will maintain a full 190-day academic year.
- The ASPIRE program will be expanded for 2012-13.
- ACT testing to encourage college readiness.
- There will be no Reduction-in-Force (layoffs).
- There is no Step, COLA, or health benefits increase.
- Food Service will expand and share a food services manager with Redmond School District.
- Busses with greater than 300,000 miles will be replaced.
- CCSD will continue on the State schedule for adoption of textbooks. In 2012-13 the District will purchase textbooks for Social Studies.
- CCSD will work with other local school districts and the High Desert Education Service District to scrutinize the probability of combining additional business services.

- Reserve funds will be appropriately increased in compliance with previous Board direction.

Challenges in Fiscal Year 2012-13

The common challenge for all school districts, including Crook County, is how to sustain and improve the current educational programs given continuing inadequate state funding. CCSD can do this for next year, but will face major challenges in future years.

Implement Achievement Compacts

Since January 2011, the Governor (through his transition teams, Oregon Education Investment Team, and staff), the Oregon Education Investment Board (OEIB), and the Early Learning Council have collected research and testimony from experts and stakeholders around those key indicators or outcomes that best predict the likelihood of student success in college and career.

The high school and college completion outcomes were identified by the Legislature when it adopted the 40/40/20 Goal for Oregon. The additional outcomes selected – 3rd grade proficiency in reading and math, 6th grade on-track, 9th grade on-track, and college credits earned in high school – represent an initial list of evidence-based indicators that the OEIB expects will be informed and improved over time. In addition, Oregon is committed to supporting local districts, as well as participating in national efforts, in developing assessments that better measure college and career readiness skills and aptitudes.

The purpose and function of achievement compacts:

The compacts focus on measures of student progress and target setting around those measures, with several goals:

- To align the education system toward achievement of the 40/40/20 goal and college and career readiness.
- To focus and inform state investment and local budget and program decisions to achieve these outcomes.
- To showcase best practices and promote collaboration, where successful districts or colleges share their strategies with those that can benefit from additional guidance and support.
- To replace provisions of the No Child Left Behind (NCLB) with a more supportive and flexible K-12 accountability system.

The achievement compacts offer an opportunity to focus a school district's efforts and community support around successful best practices to increase student success and college and career-ready graduation.

Resources

The District faces a number of challenges in the coming year as resources remain flat while expenditures continue to rise. The continued effect of the recession is experienced through the allocation of revenues from the State under the State School Fund Grant (SSF). This resource which includes local revenues accounts for over 75% of the District’s General Fund resources.

State School Fund Grant	
<u>Total Formula Revenue</u>	
ADM Allocation	\$ 20,668,914
Transportation Grant	\$ 903,198
<u>Total Formula Revenue</u>	<u>\$ 21,572,112</u>
	-
<u>Local Revenue</u>	
Property Taxes	\$ 6,775,128
Common School Fund	\$ 291,473
<u>Subtotal Local Revenue</u>	<u>\$ 7,066,601</u>
State School Fund Grant	\$ 14,505,511

- Local property values continue to decline, with assessed value (AV) forecast to drop 4%. This AV reduction results in a reduction of property tax revenues estimated at \$260,000.
- The District (and County governments) will no longer receive Federal Forest Fees. This is a loss of \$540,000 to CCSD. A one-year extension has been passed by the U. S. Senate as of late February 2012, but there has been no action in the House of Representatives.

These two elements and the Common School Fund constitute what is termed ‘Local Revenue’ and affects the amount of funds allocated to the District under the SSF. The SSF allocation accounts for the reduction of these local revenues.

- The FY 2011-12 one-year-only state allocation of the School Year Subaccount (SYS) funds results in a loss of \$625,000 for 2012-13. It was anticipated that schools might receive another one-year allocation if the State revenue forecast improved. It did not improve. In fact the State revenue forecast dropped, so there will be no additional subaccount funds for education.
- Student enrollment is anticipated to increase by approximately 32 students which increases the SSF allocation to the District.
- The Proposed Budget includes SSF revenue of \$6,014 per student for an Average Daily Membership (ADMr) of 2,882.

Current year ADMr is budgeted at 2,852 with the SSF per student allocation at \$5,851 per student. This increases the SSF grant amount.
- The SSF allocation includes \$903,000 which reimburses 70% of the District’s transportation costs.
- General Fund revenue includes potential income from a proposed online charter school. However, no expenditures are planned.

The net effect of the SSF changes coupled with other resources increasing or decreasing, result in General Fund increase of approximately \$1.1 million.

The FY 2012-13 General Fund Beginning Balance is budgeted at \$4.5 million. This is due to conservative spending on behalf of the district. This amount of beginning balance allows the District to construct a budget that assumes the use of some of the balance to fund on-going program costs, thus minimizing the need for budget reductions.

Expenditures

Concurrent with the flat revenues, the District faces increasing operating costs. The following summary of costs is included in this budget proposal:

- The instructional calendar is based on a full school year of 190 days.
- No STEP, COLA or District paid increase for health benefits is included in the Proposed Budget. If labor negotiations result in upward adjustments to these costs the budget will be re-evaluated to identify offsetting requirements and/or the possibility of additional resources.
- Utility rates continue to increase. The District will continue its efforts to increase building efficiency in an effort to mitigate the rate increases. Electricity will increase about 6%, water 3% and sewer may increase as much as 9%.

- PERS Debt Service payments are scheduled to increase an average of \$90,000 per year through 2028.
- PERS contributions paid by the employer will hold steady for fiscal year 2012-13, but is anticipated to increase substantially in 2013-14.
- Diesel fuel for buses continues to increase. At this time we anticipate the increase will be at least \$20,000 annually.
- The budget transfers \$150,000 to the Athletic fund to support transportation and other costs for athletic teams. The District families will still be counted on for significant fund raising support.
- The proposed budget includes transfers to fund reserves at the level agreed to by the Board in February 2010.

Fund No.	Fund Name	Transfer Amt
205	Food Service	\$ 1,200
208	Textbooks	220,000
209	PERS Reserve	250,000
210	Bus Replacement	225,000
212	Early Retirement	273,000
214	Maintenance	100,000
236	Athletics	150,000
237	Insurance	50,000
330	SSF - PERS	1,730,200
341	QZAB-2	69,604
	Total Transfers	\$ 3,069,004

- Hiring a Food Service Manager will enable the District to implement the new federal reauthorization rules, improve efficiencies, and expand programs particularly for after-school programs. This position will be funded within the self-

sustaining Food Service Fund. It is anticipated, but not definite, that hiring this position will be cost neutral.

- There are no major increases in budgeted costs for purchased services and supplies, with the exception of an increase to the pass through of state funding paid to Powell Butte Community Charter School (PBCCS). PBCCS will expand from K-7 to a K-8. The total estimated obligation will be greater than \$1.1 million. This amount is included in the District's SSF allocation.
- The State legislature passed HB3681 during the 2011 legislative session. This bill allows 'open enrollment' between school districts across the state beginning with the 2012-13 school year. It is unknown how this may affect CCSD. There may be an impact that requires adjustments prior to adopting a budget in June.
- The proposed budget funds a general Operating Contingency equal to \$800,000, greater than the 2% (\$525,000) Board policy. This contingency includes an amount equal to possible revenues for the proposed on-line charter school.
- The Reserve is funded at \$900,000, below the Board policy of 6%, or \$1.5 million. This allows for technically balancing the budget. It is expected that conservative spending consistent with past practice will continue to ensure adequate carryover to the 2013-14 budget year.
- The Proposed Budget includes the possibility of establishing an on-line charter school (Insight/K12) that will bring additional funding to the District. Revenues and expenditures are uncertain at this time; therefore an amount equal to the

projected revenue will be budgeted in a dedicated contingency. Funding may be moved to the appropriate expenditure items if and when the on-line school is established and funding is more certain.

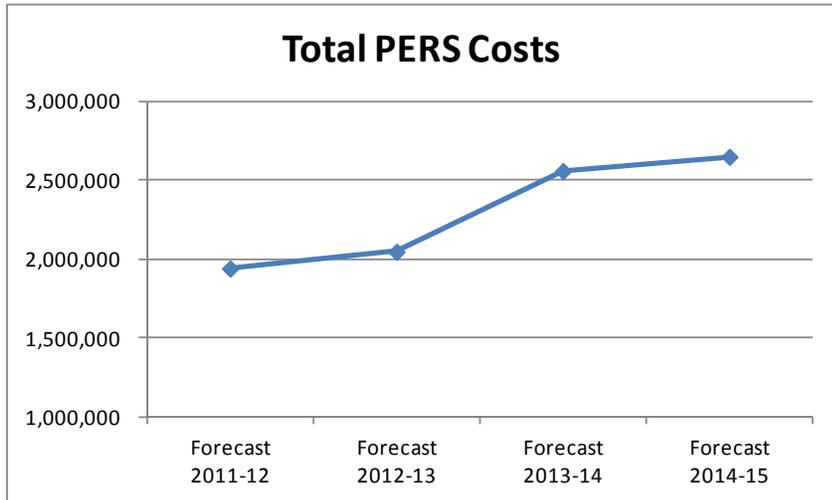
Future Year Financial Concerns

The District must make difficult decisions within the next two years. Judicious use of excess balance, which is considered a one-time resource, is currently being used to fund on-going program costs. This excess balance will disappear over the next three years and will require tough decisions on the part of the Superintendent and the Board. It will not be possible to maintain the current level of educational programs without additional revenue or reductions to operating expenses.

The District is dealing with aging infrastructure and should continue to adequately fund reserve accounts to address inevitable challenges such as old roofs, boiler replacement, replacement of buses and network servers, and the potential for increased unemployment costs.

Some long term commitments require an annual transfer from General Fund resources for years to come - including PERS bonds through 2028, bonded debt for Qualified Zone Academy Bonds (QZAB) #2 used for facilities renovations through 2023, and early retirement benefits potentially through 2019.

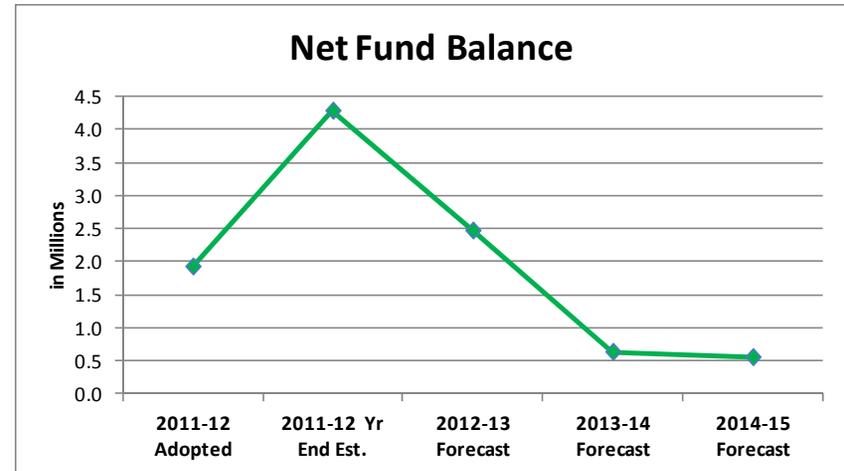
The chart on the following page includes debt service on the PERS bonds. In addition the amount the District must pay to PERS, beyond debt service, is anticipated to increase for the foreseeable future.



Beginning in 2015-2016 schools must provide full-day kindergarten which at this time is an unfunded mandate from the State.

Future choices are neither good nor pleasant – for the students, the staff, and for the community at large. The current operating budget shortfall is estimated to be \$1.7 million.

Future decisions will focus on how to bring the operating budget back into balance. The chart below highlights the declining fund balance that must be addressed in the near future.



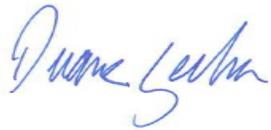
Examples of cost drivers that may be considered in re-balancing the District’s future operating costs include but are not limited to:

- Step, COLA and Lane increases (including associated payroll costs).
- Health Insurance paid by Employer.
- Employer paid PERS costs.
- Reduction in the number of school days.
- Use of reserve funds.

To quickly restate, under this budget we are able to maintain a full school year for our students and continue efforts to improve educational programs. We face future funding challenges that must be dealt with, but we have a little time to take a thoughtful, strategic approach to dealing with that challenge.

On a final note I would like to recognize the efforts of all District staff in helping put this budget together. In particular I would like to thank the Business Office team of Diana Rice, Sherry Joseph and Trish Robideau. I further want to extend a word of thanks to Mark Murray and Greg Munn for budget work development and business services this past year.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Duane Yecha". The signature is fluid and cursive, with the first name "Duane" being more prominent than the last name "Yecha".

Dr. Duane Yecha
Superintendent
Crook County School District