

**CENTENNIAL SCHOOL DISTRICT
2017/2018 BUDGET MESSAGE
April 19, 2017**

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EXECUTIVE SUMMARY

“It was the best of times, it was the worst of times”...so begins *A Tale of Two Cities*, the 1859 novel by Charles Dickens. It is a fitting quote for describing the budget conundrum facing the Oregon State Legislature in the spring of 2017.

Oregon’s economy has recovered from the Great Recession of 2009-2010 and has demonstrated strong, sustained economic and revenue growth. The State of Oregon’s general fund budget will have an additional \$1.3 billion in tax and lottery revenue in the 2017-2019 biennium. The state’s unemployment rate has fallen to historic lows; people are back at work and paying income taxes. Housing and commercial construction have rebounded, new construction is apparent throughout much of the state, leading to significant increases in property tax revenue. Indeed, in so many ways it is the best of times.

The Co-chairs of the Joint Ways and Means committee, the principal budget writing committee of the legislature (the ODE estimates of State School Fund are based on this proposal), have proposed a budget which, by their own estimate, is \$1.6 billion short of providing the level of state services we currently enjoy. For example they have acknowledged that hundreds of thousands of low income Oregonian’s could lose health care coverage, hundreds of Oregon K-12 teachers could lose their jobs leaving behind even larger class sizes, the school year may be shortened to reduce school budgets and services to senior citizens may be slashed. Those are all vivid reminders of the worst of times most of us have seen in our lifetimes, i.e. the Great Recession.

The current proposal of the Co-chairs of the Joint Ways and Means Committee of the Oregon Legislature is \$7.8 billion. For Centennial, that funding level would mean we would have to reduce this budget by approximately \$2.2 million. In other words, that would be a 3.3 percent budget reduction. Translated into services, it is almost the cost of operating an entire elementary school for the school year; or it is equivalent to 27 classroom teachers; or it is the cost of about 10 days of school. Absolutely none of those, or any combination of those service reductions are acceptable. All of them are very damaging to the education of our children.

This budget message must make one point clearly and emphatically. The revenue estimates in our general fund budget are based on a final appropriation by the Oregon Legislature for the State School Support Fund (SSF) of at least \$8.1 billion. Anything less will mean unacceptable reductions that will impact every child we serve in Centennial.

Insufficient Resources

While an appropriation of \$8.1 billion may maintain our current level of service in Centennial School District, this is a period of great uncertainty as information continues to change and even this amount may not be adequate. Centennial parents want our schools to make progress in providing smaller class sizes, giving students more opportunities for electives which increase student engagement in school, to provide more student support after school and during the summer, to offer more co-curricular activities which keep students in school and to have more diverse community partnerships. To make that kind of progress, we estimate it would take a state budget of \$8.93 billion.

Achieving the State's non-partisan "Quality Education Model" would require an appropriation of \$9.93 billion. For maximum achievement of students, each school would have small class sizes with more individual attention to each student, expanded learning time to address Oregon's very short school year and a richer offering of electives, co-curricular activities, summer and after school programming.

The state and each district should be aspiring to do the most for our future generations. This year only an appropriation of \$8.1 billion or more will allow us to maintain services. A more desirable outcome would be enough funding to make some progress to a more stable higher quality program to educate our children.

PERS Impact

The most significant cost driver for Centennial's budget this year is the increase in costs for the Public Employees Retirement System (PERS). A budget increase of \$1.65 million, or 23.75 percent is required to meet our PERS obligation for 2017/2018. This is one of the main drivers of the statewide budget shortfall described above. This cost is mandatory for all PERS qualified employees and the district cannot control the cost, short of reducing staff to lower overall costs. Furthermore, this will continue to be a major cost driver into the foreseeable future. Insofar as this is a statewide issue affecting nearly all public entities, there has to be a statewide response which would either provide lower rates, or sufficient funding to pay the rates imposed.

Contingency and Reserves

The district's reserves are budgeted to begin 2017/2018 at 4 percent of expenditures. This amount should be higher at this point in the statewide economic recovery. Centennial has had a philosophy of building a reasonably healthy cash reserve in good economic times and also of using those cash reserves during the bad times in an attempt to maintain a stable educational program. Because funding levels have never returned to what we had prior to the Great Recession, the district has not restored those cash reserves. Also, it should be noted that a very high number of the budget reductions still remain in place.

A mere \$1 million contingency is budgeted again for 2017/2018. This only amounts to 1.5 percent of the General Fund budget. It should be noted that there is significant risk in

operating with such a low contingency. The contingency budget serves both as a cushion for revenue shortfalls and for necessary unexpected expenditures. Without sufficient contingency it is possible that mid-year budget reductions could be required. Emergency budget reductions never work out well and usually cause lasting damage to an organization.

OVERVIEW OF THE 2017/2018 BUDGET

The budget priorities were built from community feedback at the Budget Committee meeting on February 8, 2017. The priorities that were developed at that meeting are as follows:

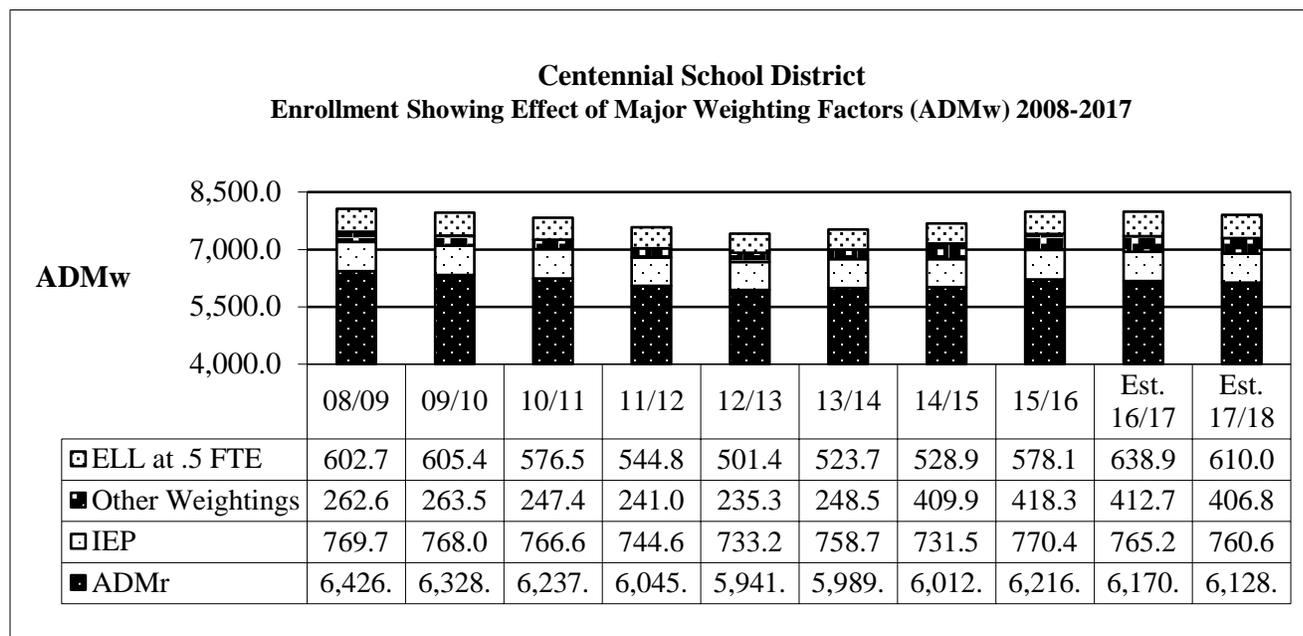
Priorities for the 2017-2018 Budget

- Continue working to lower class sizes at all levels with an emphasis on primary grade levels;
- High quality culturally responsive curriculum, assessments and professional development which are aligned to standards, supported by availability and utilization of technology;
- Provide instructional and social/emotional supports which engage students and families, address disproportionality and ensure equitable educational outcomes for all students;
- Safe, secure and clean schools that welcome students and staff and demonstrate respect for all of our diverse cultures;
- Provide Centennial School District with classrooms and space sufficient to meet the district's enrollment growth.

ENROLLMENT AND OUTLOOK FOR THE FUTURE

Weighted Average Daily Membership (ADMw) is key in the school funding formula because the total State School Fund generally is equal to that figure multiplied by a specific dollar amount. ADMw is a combination of the number of resident students (ADM_r) plus weighted factors for other special categories of students. The weightings include an additional 1.0 for each student on an Individual Education Plan (IEP), 0.5 for each student in an English Language Learner (ELL) program, 1.0 for each pregnant or parenting student, and other adjustments for the number of poverty and foster students in our district. The implementation of full day kindergarten in 2015/2016 added more demand for space in our elementary schools. A more accurate method of estimating students in poverty in Oregon schools also is benefitting Centennial's ADMw.

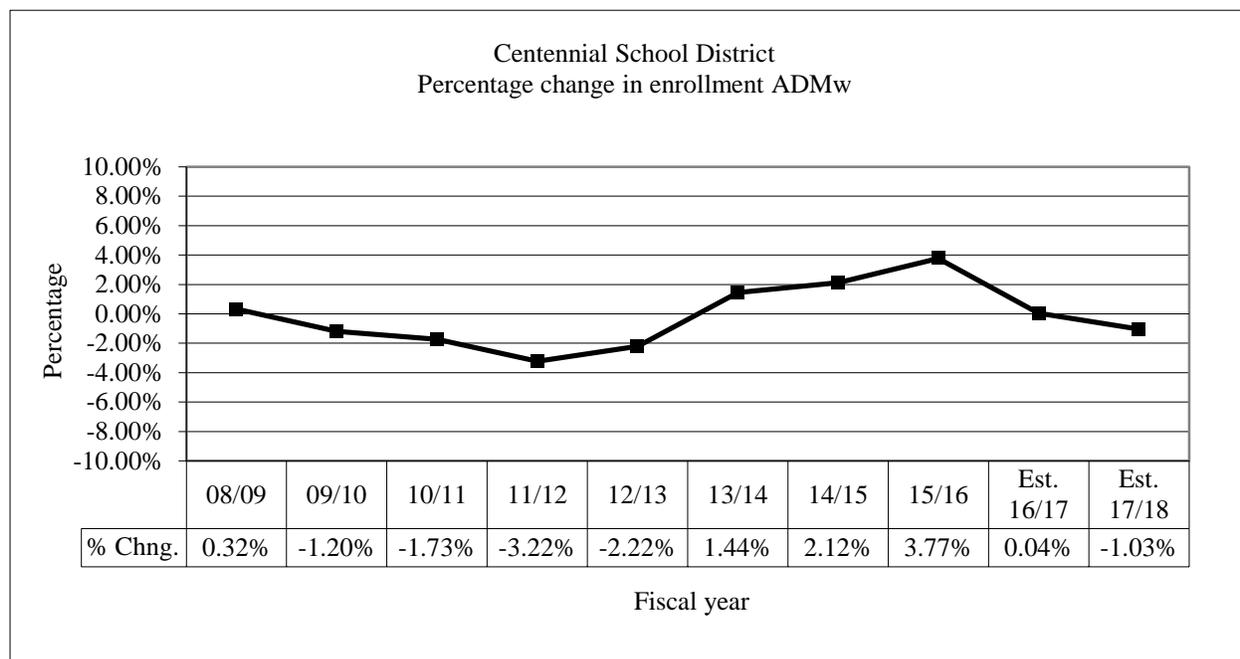
The enrollment history and next year’s weighted projections are shown in the following graph.



After three years of enrollment increases, amounting to a 7.33 percent increase, Centennial School District’s enrollment has once again leveled off. This, despite seeing a good deal of increased new housing activity in the district including both single family homes and multi-family housing units. Flat enrollment in 16/17 and 17/18 is a concern, however evidence of new vitality in Centennial is welcome and portends likely future increases in enrollment.

Overstating expected enrollment is avoided because the financial risk for doing so is significant. The district must repay the State School Support Fund for any overpayment based on an inflated enrollment projection. For 2015/2016 the district did not meet our enrollment projections and is repaying the State School Support Fund over \$500,000 that was over-received for weighted average daily membership.

The following graph shows the percentage change in student enrollment (ADMw) for each year from 2008 through 2017. It indicates that the percentage change has ranged from a high of 3.77 percent in 2015/2016 to a low of minus 3.22 in 2011/2012.



Special education students generate an additional ADM credit up to 11 percent of the district’s total ADMr. In addition the additional weighting for about 90 students over this cap. Centennial exceeds the 11 percent limit and receives additional funding for some but not all of our special education students. There is also funding provided for exceptionally high cost special education students. This funding is outside of the funding formula and is budgeted at about \$1 million for 2017/2018. A significant revenue increase over prior years was expected because the legislature doubled the funding for this weight in the 2015 legislative session. What actually has happened, due to significant statewide cost increases for high needs special education services and a large increase in the numbers of those students, the revenue impact has not been as helpful as anticipated. The 2016/17 funding for this revenue source fell short of budget by over \$600,000.

The number of ELL students in Centennial for 2016/2017 is estimated at nearly 1,300. The enrollment as of April 1, 2017 was 1,200. Each ELL student generates an additional 0.5 ADM weighting for funding purposes and we are obliged to serve those students.

Students in the district’s Pregnant and Parenting Program have consistently numbered between 10 and 15 during the last decade. The estimate for next year is consistent with those historical numbers.

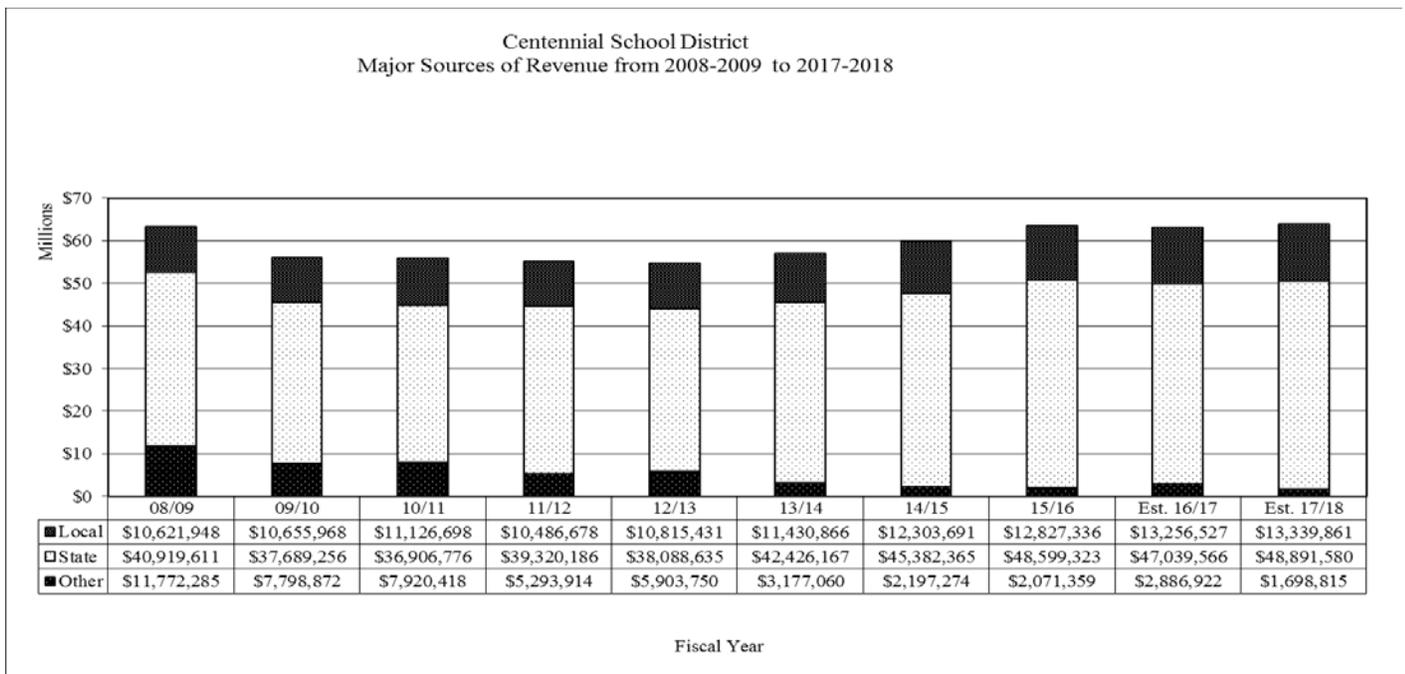
In conclusion, enrollment is the key factor in the state funding formula revenue. There are several weighting factors that make up enrollment, on which our funding is based, or ADMw. Centennial’s enrollment has begun to show an increase. The District’s ELL population has again begun to increase, and requires appropriate services to meet their needs. This year, due to lower enrollments and less special education funding for high needs students our state funding has been negatively impacted by approximately \$1 million.

REVENUE

General Fund:

The general fund is the district’s largest fund and accounts for all of the programs that are not required to be accounted for in another fund. The major resource in the general fund is the State of Oregon’s School Support Fund Formula (SSF) grant (92 percent). The beginning fund balance on July 1, 2017 is forecast to be about \$2.7 million, or 4 percent of the total general fund resources. All other sources of general fund revenue make up about 4 percent of the total. Because 92 percent of Centennial School District’s budget is directly linked to the SSF two-year appropriation for K-12 education we are closely monitoring the legislative session currently underway in Salem.

The (SSF) grant is a combined total of payments from the State of Oregon, locally generated property taxes, County School Fund, Common School Fund, and Federal Forest Fees. The total of the SSF grant is determined by multiplying the ADMw by a dollar figure established by the state legislative appropriation for K-12 schools. The amount of our grant increases when enrollment goes up. The following tables show the major sources of general fund revenue between 2008/2009 and 2017/2018:



The following tables show the budgeted general fund revenue sources and the percentage of total general fund revenue, the second table shows the budgeted revenue sources compared to the 2016/2017 estimated revenue and the percentage change:

2017/2018 Resources by Category Percent of total		
Resource	Amount	Percent of total
Formula Grant	\$62,105,966	92.04%
Interest	\$65,000	0.10%
Co-curricular	\$118,239	0.18%
Community Service	\$19,500	0.03%
Transportation Fees	\$52,500	0.08%
Other Miscellaneous Revenue	\$166,000	0.25%
⁷ City of Portland Arts Tax	\$537,000	0.80%
High Cost Disability Grant	\$1,500,000	2.22%
Fees Charged to Grants	\$223,000	0.33%
Beginning Balance	\$2,687,366	3.98%
Grand Total	\$67,474,571	100.00%

Resources – Proposed 2017-2018 Compared to 2016-2017 Adopted Budget Amounts			
Resource	2017-18 Amounts	2016-17 Amounts	Percent change
Formula Grant	\$62,105,966	\$58,577,536	6.02%
Interest	\$65,000	\$65,000	0.00%
Co-curricular	\$118,239	\$119,845	-1.34%
Community Service	\$19,500	\$18,816	3.64%
Transportation Fees	\$52,500	\$48,000	9.38%
Other Miscellaneous Revenue	\$166,000	\$357,682	-53.59%
City of Portland Arts Tax	\$537,000	\$537,214	0.00%
High Cost Disability Grant	\$1,500,000	\$358,000	0.00%
Fees Charged to Grants	\$223,000	\$215,000	3.72%
Beginning Balance	\$2,687,366	\$2,885,922	-6.88%
Grand Total	\$67,474,571	\$63,183,015	6.79%

This budget is based on an anticipation of the Oregon legislature approving the State School Support Fund appropriation of at least \$8.1 billion for the 2017-2019 biennium. The current proposal is for only \$7.8 billion. If the final funding remains at that amount, the district will need to reduce this current service level budget by approximately \$2.2 million. That would amount to a 3.3 percent budget reduction from what is already a “no additions” budget proposal. In terms of school days, that would require the elimination of ten days of education for Centennial students. In terms of licensed teaching staff, that would be equivalent of about 27 teachers. Clearly, these are unacceptable reductions and would have severe negative impacts on the education of our 6,200 Centennial students.

Since 1996 the district has received significant supplemental funding from the City of Portland and Multnomah County. In 2012/2013 the district received “bridge” funding to help during the economic recession. Beginning in 2013/2014 the district started receiving supplemental funding for music teachers from the City of Portland Arts Income Tax. The following table shows the financial support that Centennial has received from the City of Portland and Multnomah County since 1996:

City of Portland and Multnomah County Special Funding Fiscal Years 1996-97 through 2016-2017			
Fiscal Year	City of Portland	Multnomah County	Total
1996-1997	\$645,505		\$645,505
1997-1998	\$571,600		\$571,600
1998-1999		\$518,000	\$518,000
1999-2000	\$426,390		\$426,390
2000-2001			\$0
2001-2002			\$0
2002-2003	\$1,121,895		\$1,121,895
2003-2004	\$314,683	\$4,574,289	\$4,888,972
2004-2005	\$364,512	\$5,961,752	\$6,326,264
2005-2006	\$314,683	\$5,916,128	\$6,230,811
2006-2007	\$1,208,161	\$172,000	\$1,380,161
2007-2008		\$183,422	\$183,422
2008-2009			\$0
2009-2010		\$35,001	\$35,001
2010-2011		\$13,957	\$13,957
2011-2012		\$0	\$0
2012-2013	\$425,140	\$0	\$425,140
2013-2014	\$539,955	\$0	\$539,955
2014-2015	\$535,985	\$0	\$535,985
2015-2016	\$540,027	\$0	\$540,027
2016-2017	\$537,214	\$0	\$537,214
Total	\$7,545,750	\$17,374,549	\$24,920,299

Transportation Equipment Fund:

This fund accounts for the repayment of debt incurred for the acquisition of school buses used primarily in home to school transportation. The major resource of this fund is a 70 percent reimbursement of depreciation costs from the SSF and earnings on investments. The SSF reimbursement of depreciation is restricted by law for use on transportation facilities and equipment. The total resources of this fund are budgeted at \$300,419 for 2017/2018.

Energy Conservation Fund:

The purpose of the Energy Conservation Fund is a result of senate bill 1149, which provides funding through the Oregon Department of Energy for improving energy efficiency in our school buildings. Resources available in this fund in 2017/2018 are \$377,455.

Technology Improvement Fund:

The purpose of the Technology Improvement fund is to implement and maintain the district's technology plan (hardware and software acquisition and replacement) to support quality instruction and efficient operations. This fund will have resources from beginning balance and E-rate funds in 2017/2018 in the amount of \$135,565.

Capital Projects Reserve Fund:

The Capital Projects Reserve Fund accounts for revenue from construction excise taxes. For 2017/2018 this fund will pay for facility repairs and improvements throughout the District. The resources in this fund will be beginning cash balance, construction excise tax revenue and interest income. Total resources available will be \$842,611.

Center for Advanced Learning Fund:

This fund was created in December 2001, when the district received final payment on the sale of Lynch Park School. The fund accounts for the money used in acquiring Centennial's share of the Center for Advanced Learning. The main revenue sources are beginning balance and rental income. The anticipated resources of this fund are \$177,500 in 2017/2018. Expenditures in this fund are for the property taxes on Marie St. properties and our payments on the loan for the Center for Advanced Learning. The final payment on the loan for the Center for Advance Learning will be made on July 15, 2017.

Debt Service Fund:

The Debt Service Fund levies property taxes to pay the principal and interest on the district's general obligation bonds. The tax revenue in this fund is legally reserved only for this purpose. The total resources in this fund are estimated at \$5,859,413. It is estimated that the property tax rate imposed for the repayment of debt will range between \$1.15 and \$1.25 per thousand dollars of assessed value. The tax rate for 2016/2017 is currently \$1.20 per thousand dollars of assessed value.

Other Funds:

Other district funds include the Grants Fund, Dining Service Fund, Early Retirement Fund and Risk Management Fund.

In summary, the general fund accounts for most of the activities in the school district. Programs and service levels in the general fund are mainly dependent on the State School Fund. The general fund for 2017/2018 is based on an SSF appropriation of \$8.1 billion. Actual funding at the currently proposed levels will require reductions in this budget of about \$2.2 million.

EXPENDITURES**General Fund:**

The general fund proposed budget is 3.87 percent more than 2016/2017. The table below presents the general fund expenditures broken out by major object. As a service organization, our school district is budgeted to spend about 85 percent of our resources on salary and benefits for the staff that primarily work with students. The table below presents the 2017/2018 budgeted expenditures by object:

Budgeted General Fund Expenditures - Percent of Total		
Major Object	2017-18	Percent of Total
Salaries	35,210,422	52.18%
Employee Benefits	22,039,591	32.66%
Purchased Services	6,848,006	10.15%
Supplies and Materials	2,088,928	3.10%
Capital Outlay	0	0.00%
Other objects	272,624	0.40%
Interfund Transfers	15,000	0.02%
Subtotal before cont. & transfers	66,474,571	98.52%
Operating Contingency	1,000,000	1.48%
Growth Contingency	0	0.00%
Unappropriated Ending Fund Balance	0	0.00%
Total	67,474,571	100.00%

It is apparent from the table above, about 85 percent of the general fund is spent on personnel and related fixed and fringe benefit costs. This is typical of a service organization like schools.

Changes by major expenditure object between 2017/2018 and 2016/2017 are shown in the following table:

Budgeted General Fund Expenditures - Percent Change from Prior Year				
Major Object	Fiscal Year			
	Proposed 2017-18	Current 2016-17	Change	Percent Change
Salaries	35,210,422	34,578,386	632,036	1.8%
Employee Benefits	22,039,591	20,340,587	1,699,004	8.4%
Purchased Services	6,848,006	6,445,870	402,136	6.2%
Supplies and Materials	2,088,928	2,318,278	-229,350	-9.9%
Capital Outlay	0	61,345	-61,345	N/A
Other objects	272,624	253,955	18,669	7.4%
Interfund Transfers	15,000	15,000	0	0.0%
Subtotal before cont. & transfers	66,474,571	64,013,421	2,461,150	3.8%
Operating Contingency	1,000,000	945,000	55,000	5.8%
Total	67,474,571	64,958,421	2,516,150	3.87%

Looking at the expenditure changes in major objects, note that Employee Benefits have increased 8.4 percent due to the increased cost of our PERS obligation. Other Objects have increased by 7.4% due to increased costs for principal and interest payments on laptop computer lease-purchase agreements. Purchased Services are up 6.2 percent because we will be using more temporary service providers for substitute employees in support staff positions. Overall, the budget is up a modest 3.87 percent reflecting the attention that was given to proposing a current service level budget.

The 2017/2018 budget provides a small contingency for unforeseen events that may occur during the year or if not spent, to provide a beginning fund balance in the next fiscal year. A contingency plan is an important element of any financial plan. A certain amount of reserves needs to be established in the event additional staff is needed or budgeted revenues fail to materialize. This procedure establishes stability as well as a means of responding to unforeseen situations that might arise over the next year.

SUMMARY

Marian Wright Edelman writes *“Together we can and must fight for justice for our children and protect them from draconian tax cuts and budget choices that threaten their survival, education and preparation for the future. If they are not ready for tomorrow, neither is America.”* How did the PERS cost get so out of proportion? How can the state budget be short \$1.6 billion when revenues are up by \$1.3 billion? Why is it that Oregon is never able to realistically act to fund the Quality Education Model? How can we improve outcomes for our students and meet higher and higher standards when we provide a minimal service level?

Centennial has faced the challenge of the times by preparing a budget that simply maintains our current services to students. In order for us to do this, the State of Oregon must appropriate at least \$8.1 billion. Anything less will mean reducing this budget prior to implementation.

Even with a current service level budget, the public needs to understand there is much work left undone. Our current service level cannot provide the class sizes parents and staff desire. High achieving and struggling students alike benefit from more elective courses and career/technical opportunities. Students could be much more engaged in school if they had a wider array of co-curricular, after school and summer programs.

The Centennial community has always managed to work together in both the best of times and the worst of times. Now we need to carry that tradition on by communicating and advocating to our elected representatives what Centennial needs to fund this budget. Pledging to work together to do the best for children with the program outlined here and informing the legislature of the need is critical.