

**CENTENNIAL SCHOOL DISTRICT
2018/2019 BUDGET MESSAGE
April 18, 2018**

**Dr. Paul Coakley
Superintendent**

**Greg Lecuyer
Budget Officer**

EXECUTIVE SUMMARY

Dear Budget Committee Members and Centennial Community:

I submit for your consideration the Proposed Budget for the Centennial School District for fiscal year 2018/2019. The proposed budget is the result of the financial and instructional goals set by the School Board, staff, students and community. This budget proposal strives to maintain the strategic investments we have made, while recognizing the very real financial challenges the state faces with funding programs and services, including K-12 schools. This budget message describes the reasons for the slide in revenue over the biennium and the impact it will have on instructional programs and systems of support for our students and their families this coming school year. In addition to outlining the changes in our financial condition, this message describes Centennial's fiscal priorities, policies, and the four key areas of focus in which the budget has been prepared.

Our budget proposal comes at a time when the Oregon Legislature decided to fund the 2017-2019 biennial budget for education at 50 percent for each year. Typically, the state has funded education at 49 percent in year one/51 percent in year two which helps offset the roll up costs that districts face every year. Centennial's roll up costs, which represent contractual salary and benefits increases, are approximately \$1.8 million. Even though we have an improving economy, K-12 funding has remained stagnant.

The funding level approved by Oregon Legislature in 2017 is \$8.2 billion over the biennium. While the appropriation of \$8.2 billion sustained Centennial's current level of service in year one, the 50 percent appropriation was only a Band-Aid for 2017/2018. Unfortunately, this appropriation over the biennium poses several challenges for Centennial in 2018/2019.

What this means for Centennial?

Centennial faces a budget shortfall of \$1.2 million or 2 percent to maintain current programs. The shortfall is caused by a combination of:

- Declining state revenue
- Increased costs of operating our current programs with existing staff.
- Reduction of special federal, state or local funds that supported shortfalls in prior years.

In order to develop a balanced budget for 2018/2019, we are proposing three critical elements:

- Cutting up to 4 school days.
- Achieving over \$100,000 in non-personnel financial reductions.
- And/or reduction in personnel costs, distributed across all employee groups in response to decreasing revenue from enrollment declines and increasing payroll costs.
- The possibility of depleting cash reserves to minimum amounts needed (below the recommended amount of 4 percent minimum)

Absolutely none of those or any combination of service reductions are acceptable. All of them are very damaging to the education of our children.

PERS Impact

One of the most significant cost drivers for Centennial's budget continues to be the increase in cost for the Public Employees Retirement System (PERS). A budget increase of \$348 thousand, or 4 percent is required to meet our PERS obligation for 2018/2019. 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.

Insufficient Resources

An appropriation of \$8.2 billion is not adequate for the state. Centennial parents want our schools to: make progress in providing smaller class sizes, give students more elective opportunities which increase student engagement in school, provide more student support after school and during the summer, offer more co-curricular activities which keep students in school, and 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, a richer offering of electives, co-curricular activities, and summer and after school programming.

In November 2016, Oregon voters approved Measure 98, now known as the High School Success Fund, providing Centennial \$1,937,323 in the 2017-2019 biennium. These funds are intended to enhance the district's efforts in three key areas: career and technical education, college-level opportunities, and dropout prevention. While beneficial, the funding is limited in usage insofar as it can only be spent at the secondary level, for enhancement of existing programs, or to establish new programs. However, similar to federal funds, they cannot supplant general fund expenditures.

Destination 2023

In the spring of 2017, our district leadership team partnered with the Oregon Department of Education to complete a comprehensive data analysis to prepare us to enter into a Strategic Planning process. This fall and winter we engaged our educators, staff, parents, students and community members in an input process to create a multi-year Strategic Plan. Over the course of the year, four two-day sessions were scheduled to bring representative teams together for this process.

Strategic Planning is a highly collaborative process that involves all of our school communities through activities designed to solicit input at the school level in the plan development. Involving stakeholders throughout the district and community will enable us to create a five (5) year plan known as Destination 2023 that defines outcomes and aligns strategies based on a common mission and vision for the district. Destination 2023 is designed to be transparent and collaborative, provide guidance and support, and align our efforts as we build organizational capacity to create a high reliability district. By having a strategic plan, we can ensure that our collective energies and resources are focused on commonly defined priorities, and that we can measure our progress towards success.

We have developed this budget with the flexibility to invest in the targeted aspects of this strategic planning process.

Contingency and Reserves

The district's reserves are budgeted to begin 2018/2019 at 3 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 using those cash reserves during the bad times in an attempt to maintain a stable educational program. Since funding levels have never returned to what they were prior to the Great Recession, the district has not been able to restore 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 for 2018/2019. This only amounts to 1.5% 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 2018/2019 BUDGET

The budget priorities were built from community feedback at the Budget Committee meeting on December 13, 2017. The priorities developed at that meeting are:

Priorities for the 2018/2019 Budget

Budget priorities will be adjusted to support and align with our strategic plan:

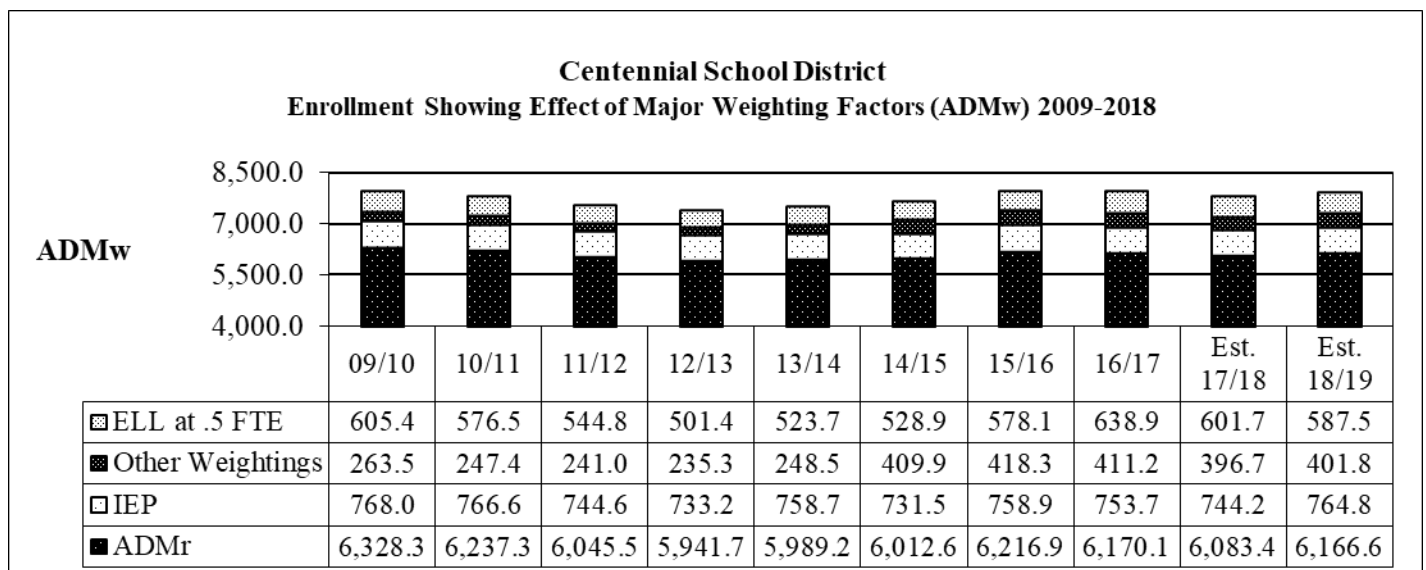
Destination 2023 once officially adopted.

- Safe, secure and clean schools that welcome students and staff and demonstrate respect for all of our diverse cultures;
- 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;
- Continue working to lower class sizes at all levels;
- Provide Centennial School District with sufficient classrooms and space 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 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 the 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.

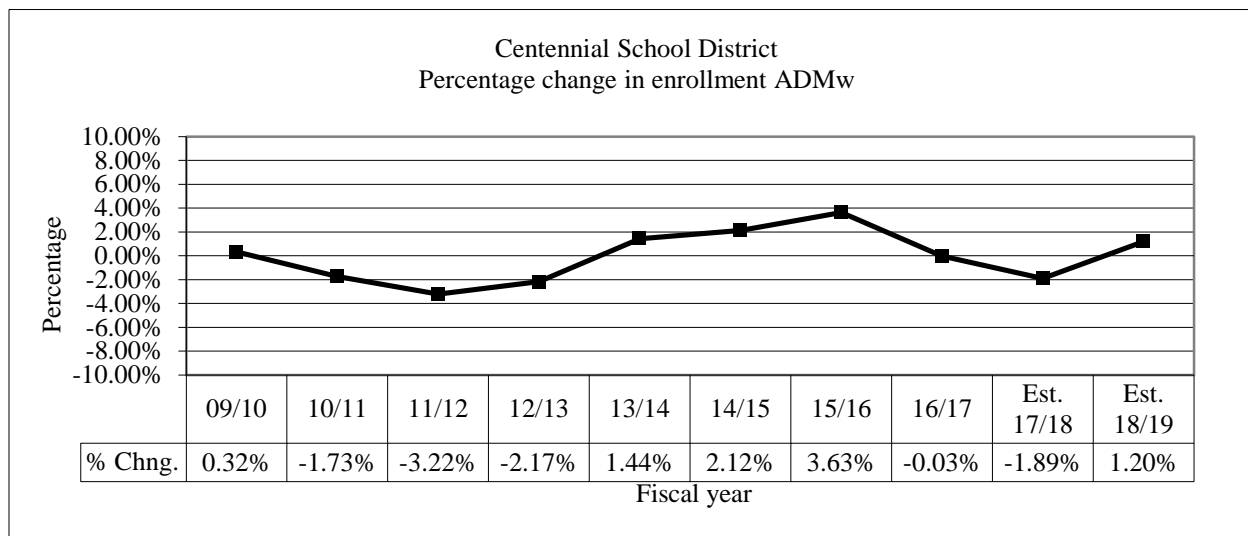
The enrollment history and next year’s weighted projections are shown in the following graph.



After three years of enrollment increases, amounting to a 7.33 percent increase, Centennial School District’s enrollment leveled off. This was 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 developing and we anticipate moderate increases in enrollment.

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 2009 through 2019. It indicates that the percentage change has ranged from a high of 3.63 percent in 2015/2016 to a low of minus 3.22 percent in 2011/2012.



Special education students generate an additional ADM credit up to 11% of the district’s total ADM. The district also receives additional weighting for about 90 students over this cap. In addition, funding is also provided for exceptionally high cost special education students. This funding is outside of the funding formula and is budgeted at roughly \$1,500,000 for 2018/2019. 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 2017/2018 is estimated at nearly 1,200 and for 2018/2019 we have estimated 1,175. 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.

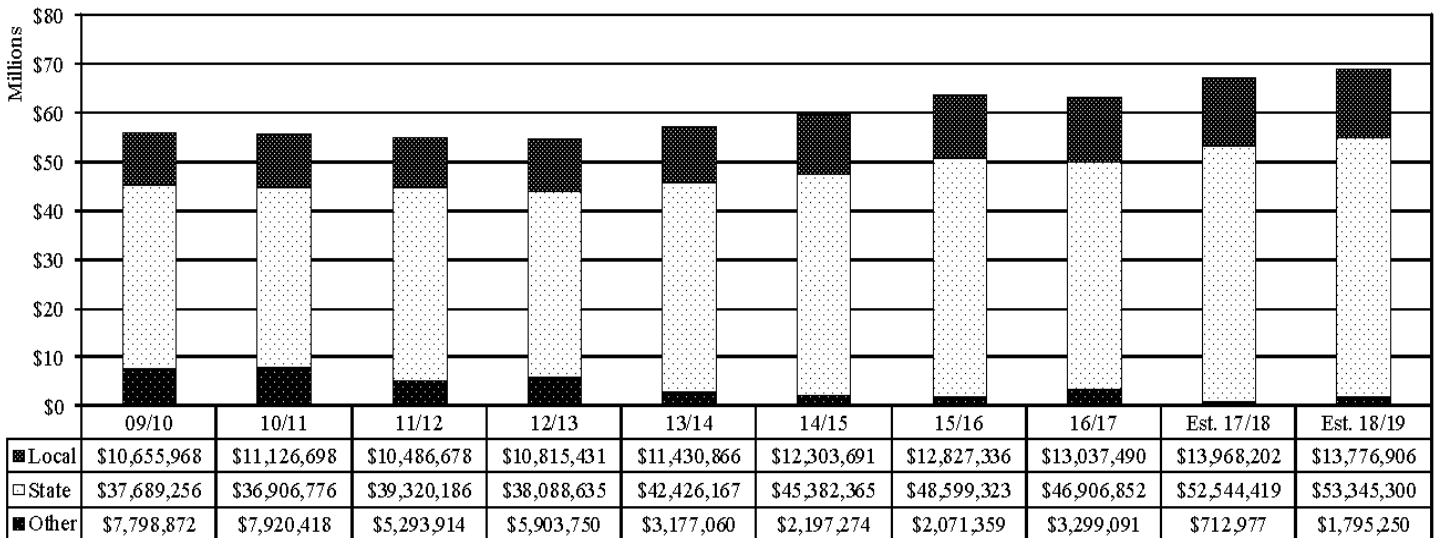
REVENUE

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 (94 percent). The beginning fund balance on July 1, 2018 is forecasted to be roughly \$1.7 million, or 2 percent of the total general fund resources. All other sources of general fund revenue make up about 4 percent of the total.

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 2009/2010 and 2018/2019:

Centennial School District
Major Sources of Revenue from 2009-2010 to 2018-2019



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 2017/2018 estimated revenue and the percentage change. Due to the fact that specific cuts have not yet been identified, the Formula Grant and Beginning Balance have been inflated by \$1.2 million to achieve a balanced budget.

2017/2018 Resources by Category Percent of Total		
Resource	Amount	Percent of total
Formula Grant	\$64,485,652	93.57%
Interest	\$110,000	0.16%
Cocurricular	\$118,554	0.17%
Community Service	\$20,500	0.03%
Transportation Fees	\$52,500	0.08%
Other Miscellaneous Revenue	\$151,000	0.22%
City of Portland Arts Tax	\$537,000	0.78%
High Cost Disability Grant	\$1,500,000	2.18%
Fees Charged to Grants	\$148,000	0.21%
Beginning Balance	\$1,794,250	2.60%
Grand Total	\$68,917,456	100.00%

Resources – Proposed 2018-2019 Compared to 2017-2018 Adopted Budget Amounts			
Resource	2018-19 Amounts	2017-18 Amounts	Percent change
Formula Grant	\$64,485,652	\$62,105,966	3.83%
Interest	\$110,000	\$65,000	69.23%
Cocurricular	\$118,554	\$118,239	0.27%
Community Service	\$20,500	\$19,500	5.13%
Transportation Fees	\$52,500	\$52,500	0.00%
Other Miscellaneous Revenue	\$151,000	\$166,000	-9.04%
City of Portland Arts Tax	\$537,000	\$537,000	n/a
High Cost Disability Grant	\$1,500,000	\$1,500,000	n/a
Fees Charged to Grants	\$148,000	\$223,000	-33.63%
Beginning Balance	\$1,794,250	\$2,687,366	-33.23%
Grand Total	\$68,917,456	\$67,474,571	2.14%

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 Tax. The following table shows the financial support that Centennial has received from the City of Portland and Multnomah County over the last fifteen years:

City of Portland and Multnomah County Special Funding Fiscal Years 1996/97 through 2017/2018			
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			
2001-2002			
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			
2009-2010		\$35,001	\$35,001
2010-2011		\$13,957	\$13,957
2011-2012			
2012-2013	\$425,140		\$425,140
2013-2014	\$539,955		\$539,955
2014-2015	\$535,985		\$535,985
2015-2016	\$540,027		\$540,027
2016-2017	\$535,475		\$535,475
2017-2018	\$537,000		\$537,000
Total	\$8,081,011	\$17,374,549	\$25,455,560

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 \$406,928 for 2018/2019.

Energy Conservation Fund:

The purpose of the Energy Conservation Fund is a result of Senate Bill (SB) 1149, which provides funding through the Oregon Department of Energy for improving energy efficiency in our school buildings. Resources available in this fund in 2018/2019 are \$540,503.

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), and to support quality instruction and efficient operations. This fund will have resources from beginning balance and E-rate funds in 2018/2019 is anticipated to be \$94,258.

Capital Projects Reserve Fund:

The Capital Projects Reserve Fund accounts for revenue from construction excise taxes. For 2018/2019 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 are projected to be \$797,875.

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 2018/2019. Expenditures in this fund are for the property taxes on the 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 Advanced Learning was 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 for only this purpose. The total resources in this fund are estimated to be at \$6,124,400. 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 2017/2018 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 2018/2019 is based on an SSF appropriation of \$8.2 billion.

EXPENDITURES**General Fund:**

The general fund proposed budget is 2.14 percent more than 2017/2018. As a service organization, our school district is budgeted to spend approximately 86 percent of our resources on salary and benefits for the staff that primarily work with students. The table below presents the 2018/2019 budgeted expenditures by major object:

Budgeted General Fund Expenditures - Percent of Total		
Major Object	2018/2019	Percent of Total
Salaries	36,465,476	52.91%
Employee Benefits	22,751,882	33.01%
Purchased Services	6,918,987	10.04%
Supplies and Materials	2,081,663	3.02%
Capital Outlay	5,100	0.01%
Other objects	179,348	0.26%
Interfund Transfers	15,000	0.02%
Subtotal before cont. & transfers	68,417,456	99.27%
Operating Contingency	1,000,000	1.5%
Total	68,917,456	100.00%

Changes by major object expenditures between 2018/2019 and 2017/2018 are shown in the following table:

Budgeted General Fund Expenditures - Percent Change from Prior Year				
Major Object	Fiscal Year			
	Proposed 2018/2019	Current 2017/2018	Change	Percent Change
Salaries	35,965,476	35,210,422	1,255,054	3.6%
Employee Benefits	22,751,882	22,039,591	712,291	3.2%
Purchased Services	6,918,987	6,848,006	70,981	1.0%
Supplies and Materials	2,081,663	2,088,928	-7,265	-0.3%
Capital Outlay	5,100	0	5,100	N/A
Other objects	179,348	272,624	-93,276	-34.2%
Interfund Transfers	15,000	15,000	0	0.0%
Subtotal before cont. & transfers	68,417,456	66,474,571	1,942,885	2.9%
Operating Contingency	1,000,000	1,000,000	0	N/A
Total	68,917,456	67,474,571	1,442,885	2.14%

Looking at the expenditure changes in major objects, note that employee benefits have increased 3.2 percent due to the increased cost of our health insurance premiums. Other objects have decreased by 34.2 percent due to the final payment for principal and interest on high school roof financing agreement. Overall, the budget is up a modest 2.14 percent reflecting the attention that was given to proposing a current service level budget.

The 2018/2019 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 *“Education is for improving the lives of others and for leaving your community and world better than you found it.”*

Our goal is to create a strategic plan, Destination 2023, that’s transparent and collaborative. It’s intended to provide guidance and support for students and staff. We will align our efforts as we work to create a high reliability school district, a district where every single school is performing at its highest potential. So while there are challenges ahead of us, we know that our talented employees, parents and the Centennial community stand ready and willing to help each child be successful.

I want to thank our staff, students, parents and community for their input. I also want to thank the Budget Committee for their thoughtful attention to reviewing the budget proposal.