

NEWBERG SCHOOL DISTRICT 29J
SUPERINTENDENT'S BUDGET MESSAGE FY 2012-2013
April 03, 2012



Paula A. Radich, Ed.D., Superintendent

Educate all students to achieve their full potential as competent, self-assured citizens of a rapidly changing world.

BUDGET ENVIRONMENT

Fourteen consecutive quarterly state revenue forecasts showed significant declines in state revenue due to the loss of jobs and personal income during a prolonged national and state recession. The state of Oregon faced a \$3.5 billion revenue shortfall for the 2011-2013 biennium.

The March 2012 State Revenue Forecast may be an indicator that Oregon's financial slide is slowing with a deficit of -\$35 million anticipated for the quarter—the smallest deficit in three years.

STATUS OF SCHOOL FUNDING

K-12 schools in Oregon receive funding from federal, state and local sources.

Federal Funds

An estimated 8.4% of our local school district budget is federally funded. The 2001 federal *No Child Left Behind Act* mandated that districts nation-wide achieve benchmark standards in reading and mathematics for all student populations with the expectation that by the year 2014, 100% of the nation's children would meet such benchmarks.

The United States Department of Education recently signaled that states may apply for waivers under the *No Child Left Behind* legislation. If the waivers are approved, states would be required to participate in revised annual assessments and submit accountability plans to the federal government for achievement of benchmarks in subsequent years. Oregon is in the process of applying for such a waiver with the United States Department of Education.

For the 2009-10 and 2010-11 school years local districts received additional federal funding in the form of *American Recovery and Reinvestment Act* (ARRA) dollars targeted specifically to address the needs of defined populations of students. The district used these resources to stabilize daily operations, reduce class size and to hire

instructional coaches K-12. While these funds resulted in jobs saved, an estimated \$1.5 million in federal stimulus funds for the Newberg School District ended June 30, 2011.

State School Fund Revenue Sources

Three sources of state revenue fund K-12 schools: property tax, personal income tax and state lottery funds. Property taxes and the personal income tax fund nearly 90% of the state's operations.

Personal Income Tax

Personal Income Tax remains the major source of funding for the state's General Fund. Because of Oregon's heavy reliance on the Personal Income Tax, state services in Oregon, i.e., Health and Human Services, Community Colleges, Public Safety, Natural Resources, Higher Education and K-12 Education are most vulnerable in recessionary times. As unemployment increases, the amount of taxes paid to the state decreases. Current Oregon unemployment figures are estimated at 8.8%, down from 10.2% during this same time period one year ago.

Property Tax

Property Tax is the major source of funding for local governments. While property taxes also support K-12 schools, the state reduces its funding to schools as property values and local tax collections increase. Property taxes for the Newberg-Dundee area were budgeted at \$12,707,935 for the 2011-12 school year. As of February 29, 2012 \$11,083,918 (87.2%) of anticipated tax revenue was received. Collections as of February 29, 2012 were running well below this same period in 2011 when collections were +2.8% ahead of projection.

State Lottery Fund

Another source of income for K-12 schools is the state's Lottery Fund. Earnings from lottery proceeds are anticipated to increase slightly over the next two years. The state's basic school fund budget for 2011-13 showed \$539 million, or nine percent of its revenue, coming from state lottery profits.

SUPPLEMENTAL STATE REVENUE

State Rainy Day Fund

In March 2007, the Oregon Senate passed House Bill 2707 and House Bill 2031. This legislation created the state's first-ever comprehensive *Rainy Day Fund*. This new savings account was initially funded by re-directing approximately \$290 million from the corporate kicker into the fund. Additional deposits into the *Rainy Day Fund* come from the state's General Fund ending balance.

House Bill 2707 established a savings account that can only be tapped if certain strict economic criteria are met. Legislation requires a three-fifths vote before the fund can be accessed. Additionally, the Legislature can only draw on two-thirds of the fund in any one biennium.

The *Rainy Day Fund* is nearly “exhausted” with only \$46 million remaining in the fund to buffer school districts against further negative revenue forecasts in the 2012-13 biennium.

Education Stability Fund

House Joint Resolution 76 converted the *Education Endowment Fund* into the *Education Stability Fund*. This fund receives the 15% of lottery proceeds that formerly flowed into the state’s *Endowment Fund*.

Moneys from the fund can only be spent on public education. Spending from the fund balance can also take place if the Governor declares an emergency and the Governor’s action is approved by 3/5 vote in each chamber of the Legislature. Like the state’s *Rainy Day Fund*, the *Education Stability Fund* is nearly “tapped out” with a current fund balance of an estimated \$9.8 million remaining for the current biennium.

K-12 FUNDING LEVELS DECLINE OVER TIME

One way to measure what is occurring in the state’s public schools is to examine the pattern of state funding for K-12 compared to other agencies. Because K-12 is a “big business” in the state, employing thousands of workers and teaching more than 550,000 young people, it is assumed that local schools receive the greatest funding and the greatest increase from the state’s General Fund.

However, over time, K-12 continues to lose ground. The state’s allocation of the General Fund for public schools during the 2003-05 biennia was 44.8%. Under Governor Kitzhaber’s proposed budget, K-12’s share of the state General Fund dropped to an estimated 39.1%--a drop of nearly six (6) percentage points over the previous four biennial budgets.

State Biennia	K-12 Share
2003-2005	44.8%
2005-2007	42.7%
2007-2009	41.5%
2009-2011	38.8%
2011-13	39.1% estimated

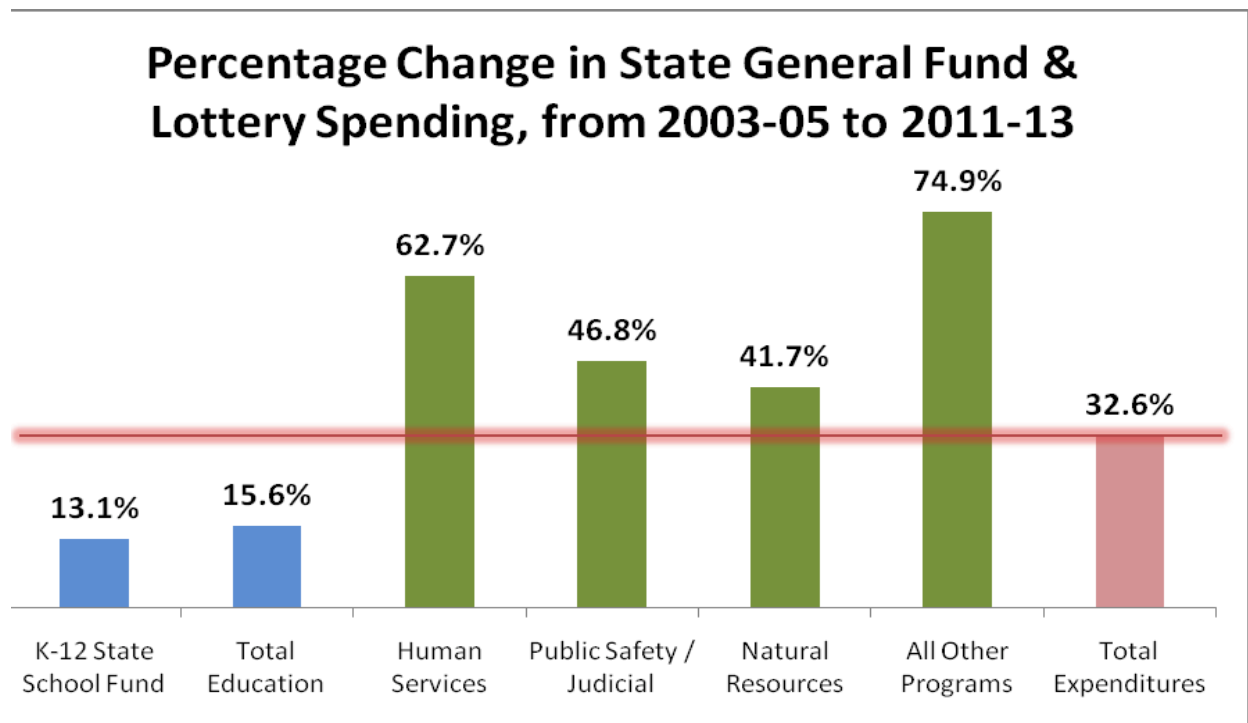
In actual dollars, K-12 is expected to receive \$416 million less in the current biennium than it did just a few years ago (\$5.712 billion in 2011-13 compared to \$6.128 billion in 2007-09), and \$38 million less than it did in the 2009-11 biennium.

PERCENTAGE CHANGE IN STATE GENERAL FUND SPENDING
Percentage Increase in Education Expenditures has fallen short since 2003

Since 2003 a greater share of Oregon’s state General Fund and lottery budget has been spent on Human Services, Public Safety and other budget categories – and a smaller share has been spent on Education.

Oregon’s K-12 public schools received less than half of the average overall percentage increase (33.3%) in the state’s total expenditures since 2003.

Education received about one-quarter of the percentage increase in expenditures allocated to Human Services, and less than one-third of the percentage increase in expenditures allocated to Public Safety, since 2003.



BUILDING THE 2012-13 BUDGET

The Newberg School District budget for 2012-13 builds revenue “capacity” at a state funding level of \$5.7 billion. The District budgeted 49.5% of anticipated revenue in 2011-12 with 50.5% revenue budgeted for 2012-13.

A NEW FRAMEWORK FOR BUILDING THE 2012-13 BUDGET

The education “landscape” in Oregon changed with the establishment of the *Oregon Education Investment Board*—charged with aligning education in the state pre-kindergarten through college and university.

In prior years, the Newberg School District proposed budget expenditures aligned with district goals. The 2012-13 budget is no exception, however, the identification and accountability for meeting multiple measures of performance mandated by the state legislature and the *Oregon Education Investment Board* complicates the current budget process. District Achievement Compacts must be completed by June 30, 2012, thereby allowing little time to engage all stakeholders in discussions regarding the methods and resources required to achieve the new targets.

40-40-20 by 2025

Beginning this spring, school districts, community colleges and universities across Oregon will work with local students, families, staff and communities to set targets to improve student success in the 2012-13 school year and establish the trajectories needed to achieve the state’s high school and college completion goal (known as the 40/40/20 goal) by the year 2025.

The goal declares that by 2025, Oregon will ensure that:

40 percent of adults will have earned a bachelor's degree or higher.

40 percent of adults will have earned an associate degree or post-secondary credential.

20 percent of adults will have earned a high school diploma, modified high school diploma or the equivalent of a high school diploma.

Achievement Compacts

In March of 2012, the *Oregon Education Investment Board* formally adopted partnership agreements called “*achievement compacts*” between the state and each local Oregon K-12 district, community college and university.

With the compacts, educators across Oregon will focus on key indicators that students are on track to graduate from high school and to go on to success in college or career.

Each compact challenges local educators to make connections beyond their own direct responsibility. School districts will be asked to work with preschools, families and childcare providers to make sure students enter kindergarten ready to learn. Districts will also be expected to track – and increase – the number of students earning college credit before high school graduation and those students continuing on to post-secondary education or training.

Community colleges will report how many students are “dual-enrolled” – earning credit in high school and community college, and how many community college students

transfer to a four-year college or university. Universities will set targets for their graduates' employment in Oregon and employer and alumni satisfaction.

Alignment of Targets and Resources

Each school district is expected to lead a planning process – in conjunction with its budget development – to establish targets for each measure of student achievement and identify the progress needed to achieve the state's 40/40/20 goal for high school and college completion by 2025.

School districts will set targets for their student body as a whole, and for those students historically disadvantaged, whether communities of color, English language learners, students with disabilities, or those from low-income families.

The budget, then, should reflect the resources allocated to meet compact goals.

Newberg's Alignment Opportunities

At the Budget Committee meeting of May 15, 2012, the district will present a tentative draft of the Achievement Compact and a listing of budget resources needed in 2012-13 to move the district toward achieving the compact targets.

The preliminary budget presented for Budget Committee review, includes some, but not all, of the resources anticipated for 2012-13.

BUDGET ASSUMPTIONS

Budget preparation for the 2012-13 school year takes into account the following factors:

Passage of May 2011 Bond Measure

In May 2011 the Newberg-Dundee communities approved a \$27.1 million Bond Measure dedicated to maintenance and repair, energy efficiency, safety and security and classroom supports. The passage of the bond and added flexibility created by the Oregon Legislature that permits the purchase of textbooks and equipment from bond funds, contributed, in large part, to stabilizing district operations in 2011-12. An estimated \$700,000 in General Fund costs for textbooks, technology, maintenance and construction oversight for 2011-12 were transferred to the bond. Some General Fund coding to the bond will also be needed in 2012-13.

Enrollment Projections

District enrollment is currently estimated at -142 ADMw over this same period in April 2011. Because district funding is heavily reliant on the "weighted" student count, the District will take a conservative approach and budget for enrollment at a reduced level for 2012-13 of 5714 ADMw.

PERS Rate Increase

State and local government agencies, school districts and municipalities across Oregon faced a major hike in pension costs because of the financial market's meltdown.

Contribution rates to *Oregon's Public Employees Retirement System* differ widely by

employer. But system-wide, rates increased an average of 8.4 percentage points or \$1.3 million for the district beginning July 1, 2011. That same amount is anticipated for 2012-13 with new rates projected for the 2013-15 biennium due in October 2012.

Employee Salary and Benefits

The estimated cost for a step increase for all eligible employees for 2012-13 is \$585,000. Other employee-related cost increases combined (Cost of Living Adjustment and insurance) for 2012-13 are currently projected at less than half the amount of the step increase.

Textbooks, Technology and Musical Instrument Replacement

The Oregon State Board of Education adopted the new *Common Core Standards* in mathematics, reading and writing. These new rigorous standards require staff development and instructional materials for staff and students.

Passage of the May 2011 Bond Measure permits the district to fund needed textbooks and technology replacements.

ESTIMATED GAP TO FUND NEWBERG SCHOOLS 2012-13

Even with a “best case” funding scenario of a \$5.7 billion for the biennium, Newberg’s share of the state revenue is significantly below the district’s essential budget level—in part because of a significant decline in enrollment in 2011-12 (-142 ADMw).

FILLING THE BUDGET GAP

While the Oregon State Legislature met in February 2012, no additional funds were allocated to K-12 Education and no additional reductions to K-12 were mandated. In 2013-15 Oregon leaders must restructure government to bring it into sustainable balance with revenue or keep scrambling to patch holes for the next two or three biennia. Likewise, we are also scrambling at the local level to “fill the budget gap”. To achieve an estimated \$1.2 million Ending Fund Balance for 2012-13 several proposed adjustments are recommended:

Ending Fund Balance

The district will use almost the entirety of its Ending Fund Balance to offset anticipated losses in revenue for 2012-13. The district’s Ending Fund Balance for 2012-13 is currently estimated at \$250,000 (.6%) with the goal of achieving an Ending Fund Balance for June 30, 2013 of \$1.2 million or three percent (3.0%). To do so, the district will need to identify savings and reductions of nearly \$1 million.

Class Size Increase

The district balanced previous budgets, in part, by increasing class size K-12 by an additional two to three students per classroom. The 2012-13 budget may include an increase in class size by .5 student in grades 4-12. Savings from the proposed class size increase amount to an estimated \$275,000.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
K-3	25:1	23:1	24:1	25:1	25:1	26:1	26:1
4-5	27:1	25:1	26:1	29:1	28:1	29:1	29.5:1
6-8	28.5:1	26.5:1	27:1	30:1	29:1	30:1	30.5:1
9-12	29:1	26.5:1	27:1	30:1	29:1	30:1	30.5:1

Retirement Savings

As of March 30, 2012 ten (10) licensed staff members submitted letters announcing their retirement. Savings from licensed staff retirements are estimated at \$20,000 per member for a savings of approximately \$200,000 for 2012-13.

Discretionary Account “Hold Back”

In November 2011 the district froze spending for all 300-600 discretionary accounts in an effort to save \$500,000 in the 2011-12 General Fund budget to offset revenue losses due to a substantial decrease in enrollment.

To create an Ending Fund Balance of \$1.2 million for 2012-13, the district proposes funding all school discretionary accounts at 50% in the fall of 2012 with the remaining amount released to schools in January or February of 2013 provided enrollment and budget remain “on track.”

While a 50% “hold back” on discretionary accounts is challenging, schools will receive textbooks and technology through bond proceeds and will not need to use the school’s General Funds to purchase either textbooks or technology.

Senate Bill 1149 Funds

The Oregon Legislature passed Senate Bill 1149 that introduced competition into the retail electricity market of Oregon’s two largest utilities, Portland General Electric and PacifiCorp. The bill went into effect on March 1, 2002. It provides that PGE and PacifiCorp must collect a public-purpose charge from consumers within their service areas that is equal to three (3) percent of the total revenues from electricity services. Ten percent of these public purpose funds must go towards energy efficiency efforts in the public schools within their service areas.

Because of energy upgrades implemented through the May 2011 Bond Measure, the district is eligible to receive at least \$75,000 in 2011-12 and 2012-13 in “rebates”. At this time, the superintendent recommends depositing SB 1149 funds in the General Fund budget for 2011-12 and 2012-13 at a savings of \$150,000.

Bond Salary Re-Code

Because the bond will fund textbook adoptions, an estimated \$40,000 in the Teaching and Learning budget will be reduced. Likewise, approximately \$100,000 in

discretionary district account expenditures will be withheld to bolster the 2012-13 General Fund Budget.

CONCLUSION

Oregon's dramatic financial free fall may have slowed or even stopped, but economists predict the state could remain in serious recession for two or three years with a "mild turnaround" by the end of the current year. The May and August Revenue Forecasts will continue to shape the state's spending plan for the coming year. It will shape K-12 education as we now know it in our local community.

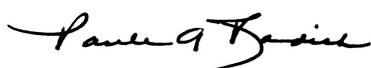
After awarding earned step increases for all employee groups, holding the line on increases in salary and benefits, the district's anticipated General Fund Budget expenditures including "roll up" costs for salary, benefits, utilities and contracted services is estimated at \$41,272,480 compared to the 2011-12 adopted General Fund Budget of \$40,864,458 (+\$408,022).

Proposed 2012-13 funding levels and the district's conservative approach to budgeting, may not prevent the layoff of teachers and other school staff.

On September 4, 2012 the Newberg Public Schools opens its doors to 5,000 students Kindergarten through grade 12. Our resources and staffing will be limited.

Our challenge lies in an opportunity to renew our dedication to our students through our very best teaching. The legacy for our children during this time is not our list of budget reductions but what is learned each and every day in our classrooms.

Respectfully submitted,



Paula A. Radich, Ed.D.
Superintendent