

NEWBERG SCHOOL DISTRICT 29J
SUPERINTENDENT'S BUDGET MESSAGE FY 2015-16
April 15, 2015

Kym LeBlanc-Esparza, Ed.D., Superintendent

Newberg School District students will graduate with the knowledge and skills needed to be successful, contributing citizens of the 21st Century.

In partnership with our parents and our community, the Newberg School District will educate all students to achieve their full potential as knowledgeable, self-assured citizens ready for college and/or career.

BUDGET ENVIRONMENT

The State of Oregon legislature funded education at \$7.255 billion over the upcoming biennium. While this is a marked increase over the previous two years, which was funded at \$6.65 billion; the funding level still leaves Oregon K-12 education unable to provide a comparable educational experience to their national counterparts. Many legislators called for an \$8 billion funding level for K-12 education for this biennium. This level of funding would be necessary in order to begin to make up for the 2008-2013 reductions and to begin to offer Oregon students a 21st century educational experience.

Newberg has a long history of fiscally conservative budgeting, therefore it has been able to weather the previous 8 years better than many districts throughout Oregon. However, Newberg also finds itself struggling to provide the 21st century educational experience students will need in order to be competitive throughout the state, nation and world. Consider these factors in our current budget environment:

- Oregon's population is anticipated to grow at 1.16%. This ranks Oregon 13th in the nation in growth. While this is a difference in what had been predicted just a year ago, the demographics of zero to 18 year olds is not where the growth is anticipated. The population of K-12 students is anticipated to grow 1.5%, while the population of 65+ is expected to grow 48%! Demand for public services geared towards children and young adults will likely increase at a very slow pace, whereas demand for elderly care and services is expected to increase rapidly.
- The most recent job growth rankings, published by Arizona State University's W.P. Carey School of Business, places Oregon sixth in the nation for job growth as of December. Over the past year the State of Oregon has added 47,000 jobs, or an increase of 3%. A year ago, Oregon ranked 3rd fastest with growth of 2.35% and two years ago the growth was less than 1%.
- Personal income is expected to increase by 5-6% each year over the next two years. Education has been identified as one of the five major industries to make up almost half of the state-wide jobs. Other industries in the top five include food and health, professional and business services, and hospitality and leisure services.
- The state of Oregon is forecasting for strong job growth and low energy prices. The forecast is calling for 2.6% growth in job creation over the next two years.

STATUS OF SCHOOL FUNDING

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

Federal Funds

An estimated 8% of our local school District budget is federally funded. The majority of this funding is in support of special student populations and the work to serve those students.

Over the past two years, the United States Department of Education has granted the State of Oregon a waiver to the 2001 No Child Left Behind legislation. Oregon's waiver requires the State to satisfy three major domains of expectation in order to continue to waive the federal mandates. The three domains require the State of Oregon to establish College and Career Ready expectations for all students. This includes the establishment of expectations around student achievement and growth. The State must also establish a Recognition, Accountability and Support structure to categorize schools. Schools receive a report card annually and schools that fail to perform at established criteria are designated as Priority or Focus schools. Finally the State must mandate a system of Supporting Effective Instruction and Leadership. This calls for the establishment of an evaluation system that is tied to student performance data. This work is being done through Senate Bill 290 legislation, which resulted in a new evaluation system implemented in fall 2013. The state of Oregon is still under the guidelines of the waiver that was granted, however should the Elementary and Secondary Education Act be reauthorized, the state as well as the Newberg School District could face different accountability criteria in the near future.

When the state was constructing its application for waiver, it also established the Oregon Education Investment Board. This agency was established to oversee P-20 education in Oregon. It implemented an expectation that all school districts would develop an Achievement Compact that was made up of benchmarks of achievement. These goals were supposed to guide goal setting and decision making around budgeting in order to support overall district growth. In the current legislative session, law-makers are considering the future of the Oregon Education Investment Board as it is currently scheduled to sunset, along with the programs and requirements imposed by the OEIB. While the state has declared Achievement Compacts to no longer be an expectation, the State's overall goal of "40-40-20" is still an agreed upon target we are striving toward. The details of "40-40-20" will be outlined in detail later in this report.

State School Fund Revenue Sources

There are three sources of State of Oregon revenue that fund K-12 schools: property tax, personal income tax and State lottery funds. These sources make up approximately 60-65% of the overall budget.

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, (e.g., 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 5.4%, down from 6% during this same time period one year ago. Given that unemployment is decreasing, the revenue forecast is giving reason for cautious optimism.

State Lottery Fund

Another source of income for K-12 schools is the State's Lottery Fund. Earnings from lottery proceeds are anticipated to continue to decrease over the next two years. This is following a nationwide trend of decline in gaming revenues. The state of Oregon has committed to replacing much of its video gaming equipment,

which is aging rapidly, therefore it anticipates investing over \$125 million of earnings into the replacement process.

LOCAL REVENUE SOURCES

While federal and state funding make up the majority of school district funding, there are local revenue sources of funding that comprise just under 30% of the overall school district budget. Local sources of revenue include current year property taxes and prior year taxes. The state provides guidance to the school district in order to set growth rates and collection rates. The current rates being used by the Newberg School District are 3% annual growth and 94% collection rate. This biennium, the state advised districts to raise those rates based on optimism over economic recovery. However, the history of the Newberg School District indicates a pattern to support the 3% and 94% rate, therefore the budget was built upon those assumptions.

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 \$12,880,000 for the 2014-15 school year. As of March 2015, \$13,497,272 has been received. The collection rate has remained relatively steady at 94%.

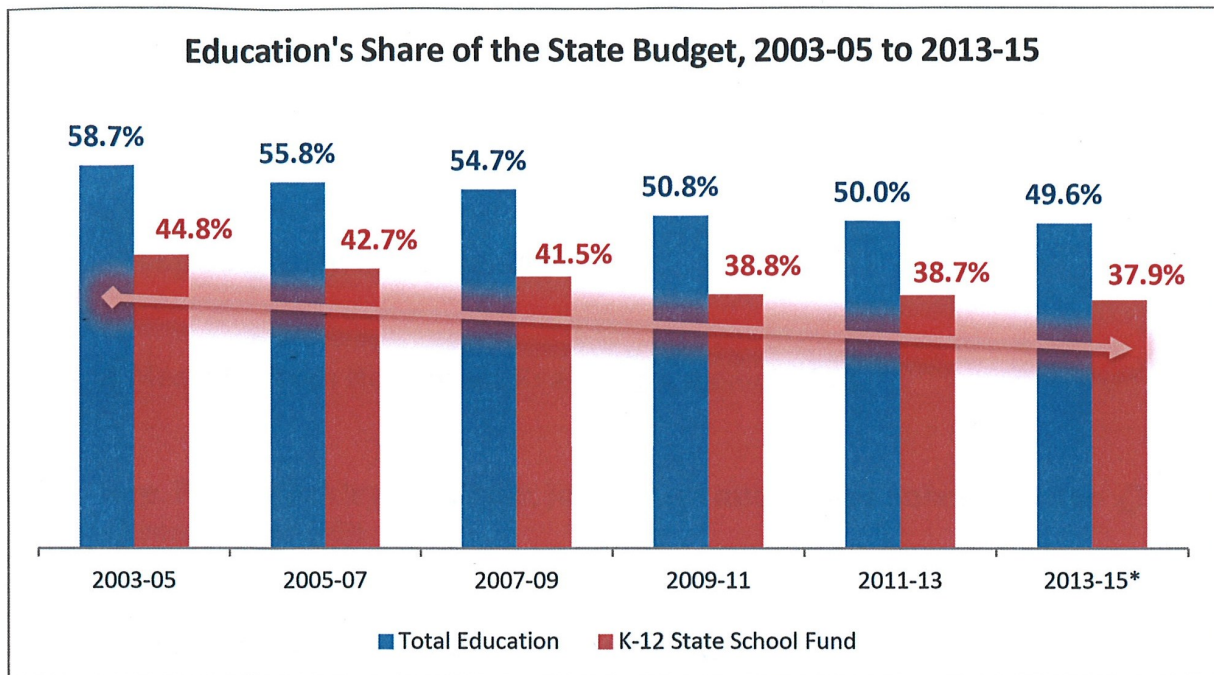
K-12 FUNDING LEVELS DECLINE OVER TIME

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 may be 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 in Oregon. 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 education's share of the State General Fund dropped to an estimated 38%--a drop of nearly seven (7) percentage points over the previous five biennial budgets. In actual dollars, K-12 is expected to receive \$600 million more in the current biennium, however with the addition of full-day kindergarten to expenditures, it spends like a net increase of about \$300 million.

State Biennia	K-12 Share
2003-2005	44.8%
2005-2007	42.7%
2007-2009	41.5%
2009-20011	38.8%
2011-2013	38.7%
2013-2015	37.9%
2015-2017	39.2%

PERCENTAGE CHANGE IN STATE GENERAL FUND SPENDING



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 2014-2015 BUDGET

The Newberg School District budget for 2015-2016 builds revenue "capacity" at a State funding level of \$7.255 billion. Standard practice in Oregon has been to budget 49% in the first year of a biennium and 51% in the second year in order to account for roll-up costs from year to year. This prevents districts from having to reduce their budgets in the second year of the biennium. This year, state officials and ODE leaders requested that school districts budget with a 50-50% split, in order to see more money up front, anticipating improved economic conditions in the second year. However, given the volatile history of educational funding over the past 6-8 years, Newberg's budget has been prepared on a 49-51% split as has been standard past practice. The difference between the 49% and 50% in funding is being placed in the contingency reserve portion of the budget. This not only helps the district reach a more stable ending fund balance, but also keeps the district from the potential need to reduce the budget in 2016-2017, should the economic projections not materialize.

A FRAMEWORK FOR BUILDING THE 2015-2016 BUDGET

The education “landscape” in Oregon changed with the establishment of the *Oregon Education Investment Board*—charged with aligning education in the State, prekindergarten through college and university.

In prior years, the Newberg School District proposed budget expenditures aligned with District goals. The 2015-2016 budget is no exception. However, over the past two years, we have used input received from thousands of stakeholders to develop our District Strategic Plan to guide our work over the next five years. This plan outlines our vision, mission and five (5) major priorities to guide all District work. The five priorities outlined in the plan include:

- Provide a high-quality, well-rounded and healthy educational experience to all students that is engaging, rigorous and culturally relevant.
- Build strong relationships with families, community and students to promote trust, support and collective responsibility for student success.
- Ensure that every classroom has a high-quality, effective educator supported by strong leadership and staff.
- Align resources to accomplish goals within a balanced budget.
- Plan systematically and strategically so that the Newberg School District continues to succeed and thrive into the future.

These priorities have been used to organize our goals and outcomes. It is the foundation that guides decision-making and resource allocation. It is through the lens of these five priorities that the budget has been developed. It will be what Newberg School District uses as its District Improvement Plan. It is also what guides our school improvement plans as well as our Achievement Compact. Finally, our Strategic Plan sets an expectation consistent with the goal set by the Governor in 2012 of “40-40-20.”

40-40-20 by 2025

Beginning in spring of 2012, school districts, community colleges and universities across Oregon worked with local students, families, staff and communities to set targets to improve student success in the 2013-14 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% of adults will have earned a bachelor's degree or higher.

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

20% 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 were to focus on key indicators that show if students are on-track to graduate from high school and ready to go on to success in college or career.

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

Community colleges reported how many students were “dual-enrolled” (earning credit in high school and community college), and how many community college students transferred to a four-year college or university. Universities set targets for their graduates’ employment in Oregon and employer and alumni satisfaction.

With the sunset of OEIB, there will no longer be an annual expectation of the Achievement Compact for each district. While this is no longer a requirement, the Newberg School District has recognized the value of the targets and goals embedded within the compact and we continue to use many of these measures as a part of our overall Strategic Plan.

Newberg’s Alignment Opportunities

At the Budget Committee meeting of April 21, 2015, the District outlined the Strategic Plan priorities to the Budget Committee. This presentation provided the committee the opportunity to ensure the budget being developed and presented aligns with the identified priorities of the District and our community.

BUDGET ASSUMPTIONS

Budget preparation for the 2015-2016 school year takes into account the following factors:

Continued Spending of May 2011 Bond Proceeds

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 Oregon Legislature also permitted the purchase of textbooks, technology and equipment from bond funds, creating flexibility for districts. These two factors contributed, in large part, to stabilizing District operations in 2011-12 and 2012-13. However, all work must be completed by July 1, 2015 and funds must be expended from the original designated bond fund. Over the next two years, the District must rebuild core functions such as Technology, Professional Learning and Curriculum and Instruction back into the general fund.

Enrollment Projections

District enrollment is currently estimated at -82.36 ADMw over this same period in March 2015. Because District funding relies heavily on the “weighted” student count, the District will take a conservative approach and budget for enrollment at a flat rate of 5955.71 ADMw.

PERS Rate

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 \$1.8 million, for the District beginning July 1, 2013. That same amount was also applicable to 2014-15. However, with new rates in effect during the 2015-16 school year, the district is seeing a savings of approximately \$1,000,000 over the 2014-15 rates. While this is the current reality, there is great anticipation around State Supreme Court’s ruling on the constitutionality

of the PERS reform package enacted during the 2013-15 biennium. Should the State Supreme Court overturn the reform as unconstitutional, new rates would have to be set in the next biennium and the funds would be repaid in an amortization over an extended period of years.

Employee Salary and Benefits

The estimated roll up cost for salaries and benefits for 2015-16 is approximately \$1,218,222

THE FUNDING PICTURE FOR THE NEWBERG SCHOOL DISTRICT 2015-2016

Although \$7.255 billion is a considerable increase over the 2013-2015 biennium, with the additional mandated increases in services as well as the reductions K-12 education has seen over the past 7 years, we still have not returned to full service K-12 Oregon public education prior to 2007. There are many positions and programs that have been eliminated and we have been unable to return those to the budget. A new addition to K-12 education is full-day kindergarten for all. While this is a critical need in our state, it comes with a cost estimate of \$280 million dollars. Newberg's cost for the implementation of full day kindergarten is anticipated at \$717,000, which provides the staffing needed to serve these students.

The Newberg School District has had to account for a \$400,000 to \$600,000 budget adjustment each of the past five years. This is due to flat enrollment growth or in some cases negative growth over an academic year. The state adjusts the incoming revenue each year to account for this change in enrollment numbers. Therefore, the budget must contain enough capacity to withstand the adjustment and the following year the district should adjust enrollment numbers to better reflect patterns of enrollment numbers.

Two years ago, the district faced a critically short ending fund balance. It is highly recommended that a school district operate with no less than a 3% ending fund balance (\$1,445,165), which will take some time to rebuild. This year, the budget contains a line item of \$577,170 in contingency and last year the district allocated \$420,000 in order to work toward a 3% ending fund balance.

Ending Fund Balance

The District used a portion of the Ending Fund Balance (EFB) to offset anticipated inadequate revenue for 2014-2015. The District's EFB for 2014-2015 is currently estimated at \$1,030,000 (2.1%) with the goal of achieving an EFB of 3% or more. To do so for 2015-2016, the District will need to be extremely cautious to guard the Ending Fund Balance for 2015-2016.

Retirement Savings

As of April 15, 2015 4 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 \$80,000 for 2015-2016.

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 (PGE) 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 equals 3% 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 the offering of the "Cool Schools" short term energy loan program through Oregon Department of Energy, the District was able to expand the energy efficiency projects in the bond work. In May 2012, the District was issued a \$1M interest-free loan. The receipts of SB1149 shall continue to service the payment schedule of this loan.

CONCLUSION

Oregon's dramatic recession seems to have concluded and economists are optimistic for the short-term future, with cautious optimism for the long term, given the age of Oregon's work force. It will likely still take a few years to balance out the kind of economic impact public education has faced over the past seven years. Education leaders estimate a need for \$8.0 billion in the 2015-2017 biennium in order to begin to restore programming and staffing necessary to provide a 21st century K-12 education. 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, and negotiating salary and benefit increases in 2014-15, the District's anticipated General Fund Budget expenditures including "roll up" costs for salary, benefits, utilities and contracted services is estimated at \$48,172,190.95 compared to the 2014-2015 adopted General Fund Budget of \$45,358,713 (+\$2,813,477). This budget increase has come at the ideal time in that there is a critical need to invest in professional learning for our staff. Past leadership did a tremendous job managing the dire budget conditions of 2008-2013, working to keep the influence away from students in the classroom. In turn, there were many needs that went unmet. Professional learning and technology integration are two of those needs. Since 2008, the population of the Newberg School District has become more diverse and more at-risk. However, the district was unable to provide the professional learning system that staff needed in order to meet those students' needs.

The 2015-16 budget also gives us the opportunity to direct resources to increase school discretionary budgets. During the years of reduced budgets, the local community has been invaluable. Our families have helped to fill gaps in funding by sending up not only supplies for their own children, but it has also been typical for families to send in supplies such as reams of paper and basic office supplies. We recognize and appreciate the efforts of our families and our community to ensure that students have the resources they need to learn. Finally, we have worked to absorb staffing in areas that had originally begun through grant funding such as Career and Technical Education and STEM.

Proposed 2015-2016 funding levels and the District's conservative approach to budgeting may not prevent the layoff of teachers and other school staff.

On September 8, 2015 the Newberg Public Schools will welcome the 5,000 plus students kindergarten through grade 12. While we are firmly committed to providing these students a 21st Century education, our resources and staffing will continue to be limited.

Our challenge lies in rethinking the way we do our work. We can be efficient and effective, while promoting a love of learning in our students. With the incredible support of our community and the talent and passion of our staff, I am confident that we will prepare our students to be successful, contributing citizens of the 21st Century! Thank you for your support.

Respectfully submitted,



Kym LeBlanc-Esparza, Ed.D. Superintendent