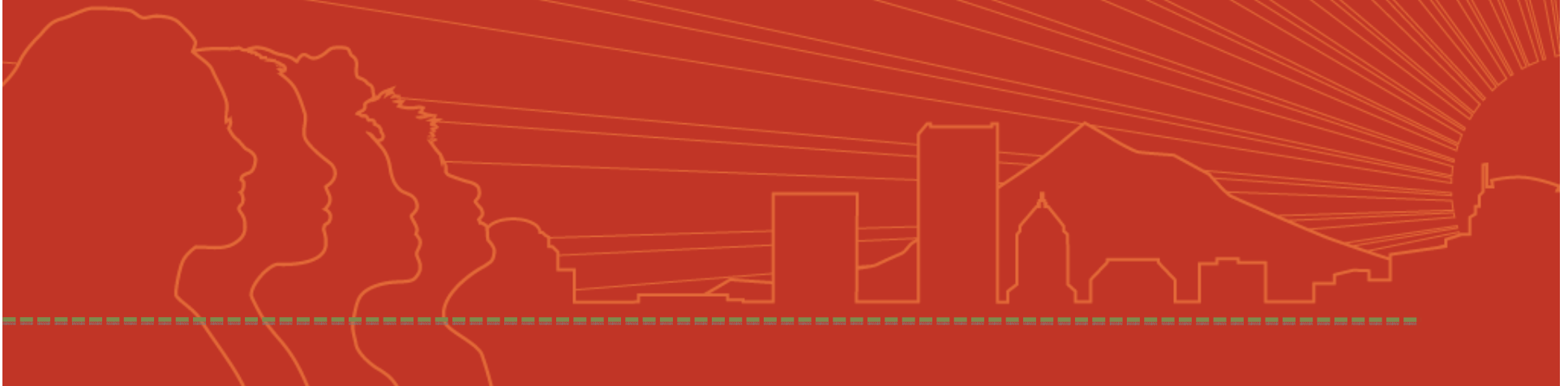




Portland Public Schools

PPS Budget Development 2011-12

Board Work Session
January 12, 2011





Agenda

- ▶ Oregon's State Budget Environment
- ▶ 2011-12 Budget Scenarios Under Various Assumptions
- ▶ Historical PPS Budget Breakdown & Cost Drivers
- ▶ Priorities Based Budget Process Overview
- ▶ Legislative Session 2011
- ▶ Next Steps



State Budget Operating Environment

SUMMARY OF KEY TRENDS

- Oregon income levels are declining vs. US and region, while taxation is staying fixed as a % of income
- OR economic recovery forecast to be very slow
- Health, human services and corrections spending growing ~2x faster than education
- The most K-12 can hope for is 3-3.5% growth, assuming major reset in corrections and health spending
 - Likely is more like 2%, which doesn't cover inflationary cost increases
- The medium-long term economic impact of continuous disinvestment in education = low growth



Agenda

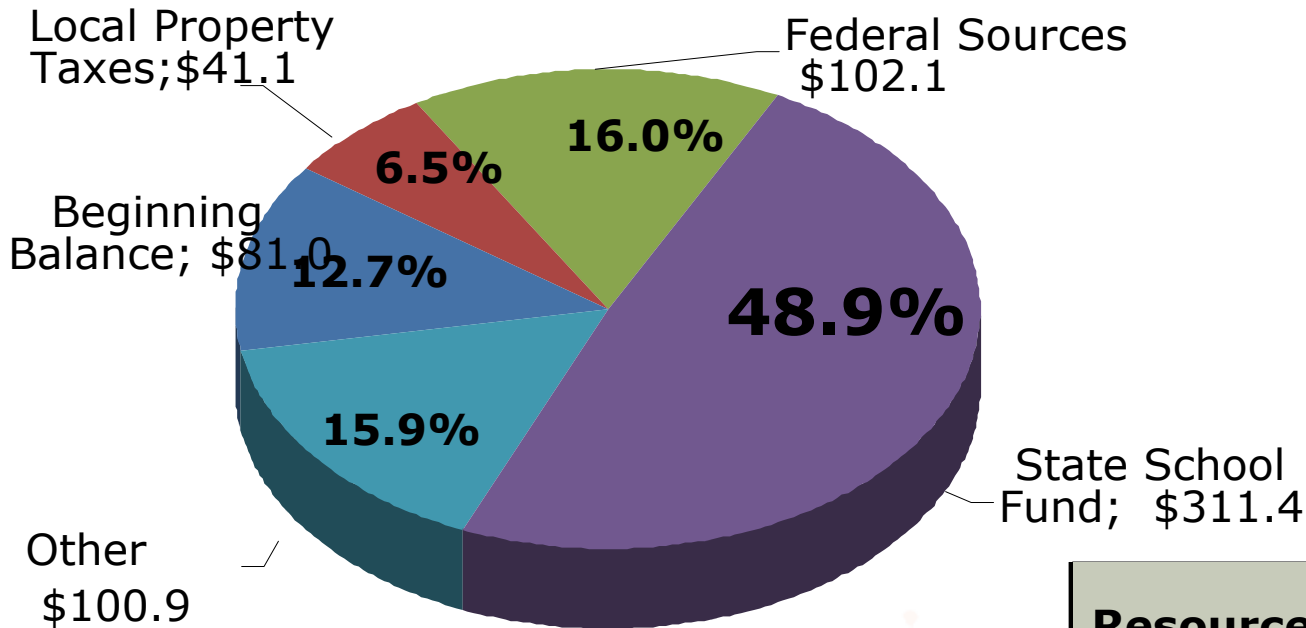
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Total District Budget – Resources

FY 2011-11 Amended

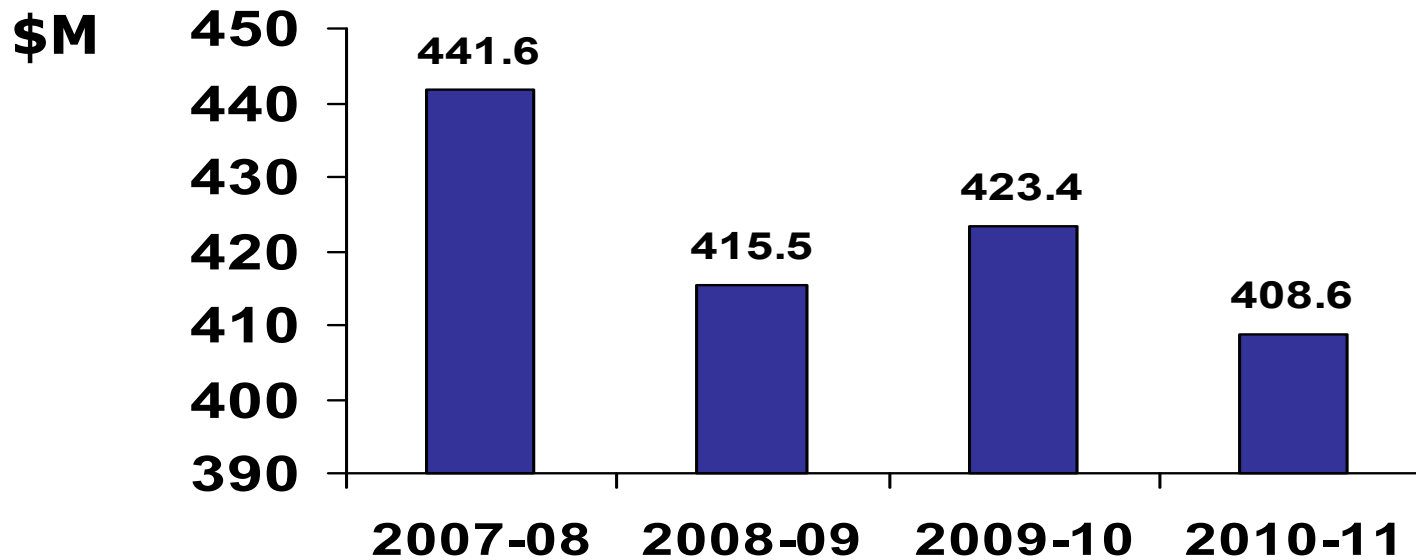


Resource Category	Amended FY 2010-11
Beginning Balance	\$ 81.0
Local Property Taxes	\$ 41.1
Federal Sources	\$ 102.1
State School Fund	\$ 311.4
Other	\$ 100.9
Total Budget	\$ 636.5

Amounts in millions



General fund revenues have been trending downward over the past 3 years

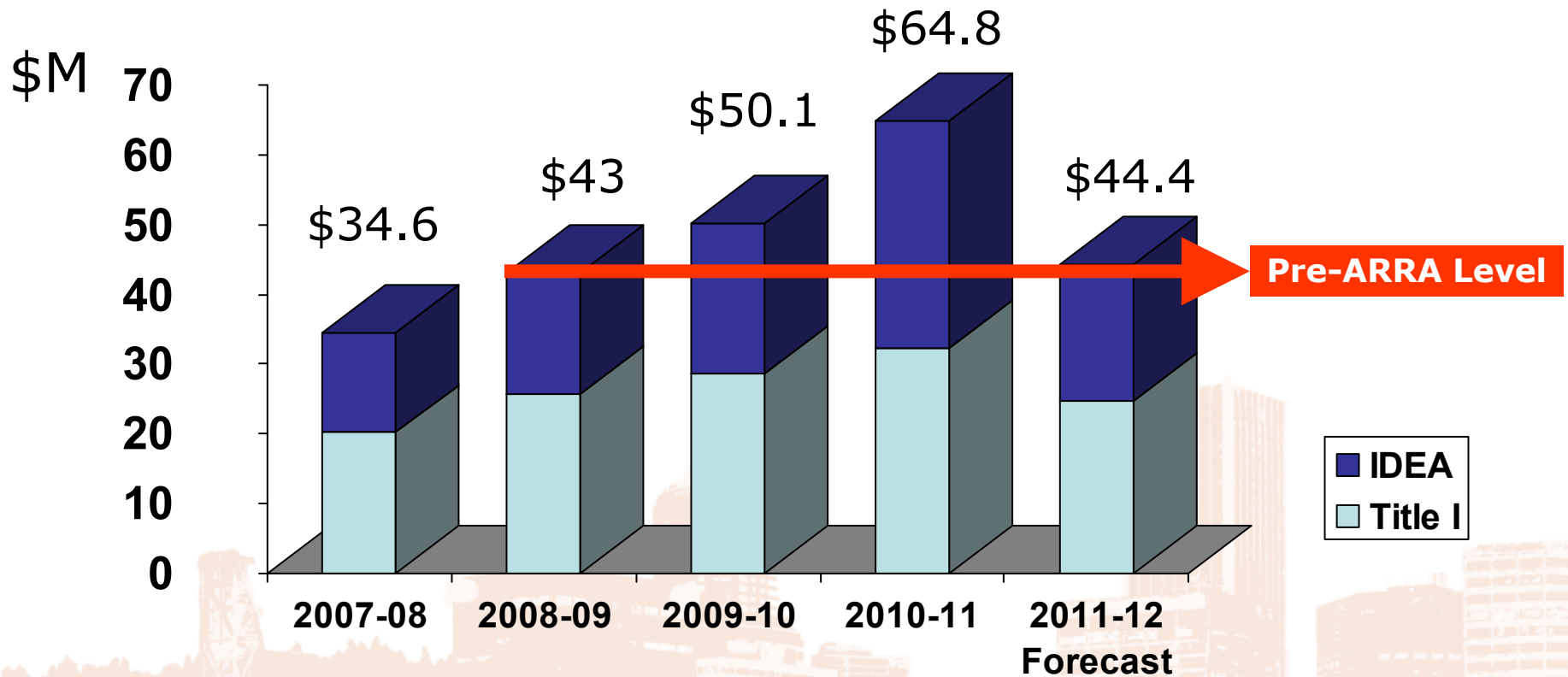


Revenue Category	2007-08 Actuals	2008-09 Actuals	2009-10 Actuals	2010-11 Amended
State School Fund	\$356.7	\$344.2	\$349.0	\$332.4
Local Taxes	\$35.4	\$37.0	\$38.5	\$41.1
Federal Sources		\$8.8	\$12.2	\$14.4
ESD Transit	\$8.4	\$7.7	\$7.2	\$7.3
Other	\$41.2	\$17.6	\$16.4	\$13.4
Total GF Revenues	\$441.6	\$415.5	\$423.4	\$408.6



Supplemental federal stimulus has filled revenue gaps, but is set to decline

Title I and IDEA Grant Funds



Projected reduction in 2011-12 represents 210 FTE or \$20.4 m



Each year we have used a mix of tactics to resolve shortfalls-

- ▶ FY 2010-11 Balancing
 - Using over \$19 million of reserves
 - Took cuts in central office and school staffing for enrichments
 - Pay freezes for senior management
 - Propped up by \$14.4 in federal stimulus funding

- ▶ FY 2009-10 Balancing
 - Reduced costs by \$14 million including central office cuts
 - Pay freezes for senior management
 - Used \$9 million of reserves
 - Propped up by \$12.2 million in federal stimulus funding

- ▶ FY 2008-09 Balancing
 - Took cuts in central office and school staffing
 - Pay freezes for administrators
 - Propped up by \$8.8 million in federal stimulus funding

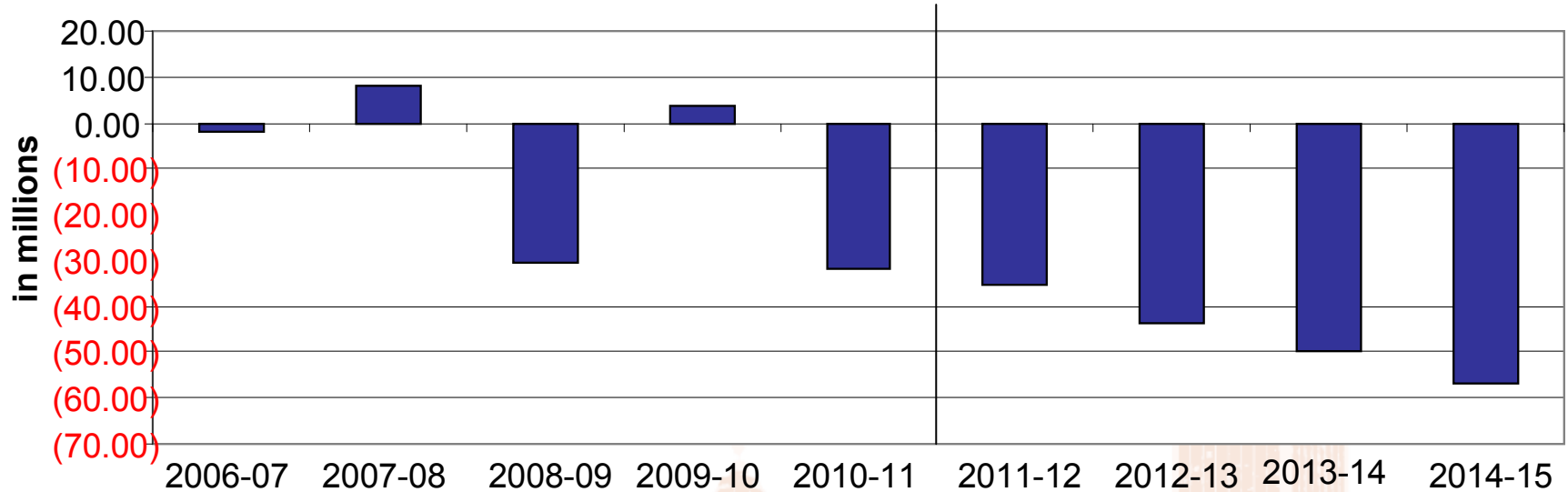
And over the previous 20 years, we repeatedly cut central support services, increased class size and reduced electives and enrichment, reduced maintenance and custodial services, used furloughs and pay freezes



Current forecast shows operating budget deficit for the next 5 years

PPS Net Operating Position

Amounts in Millions



PROJECTED

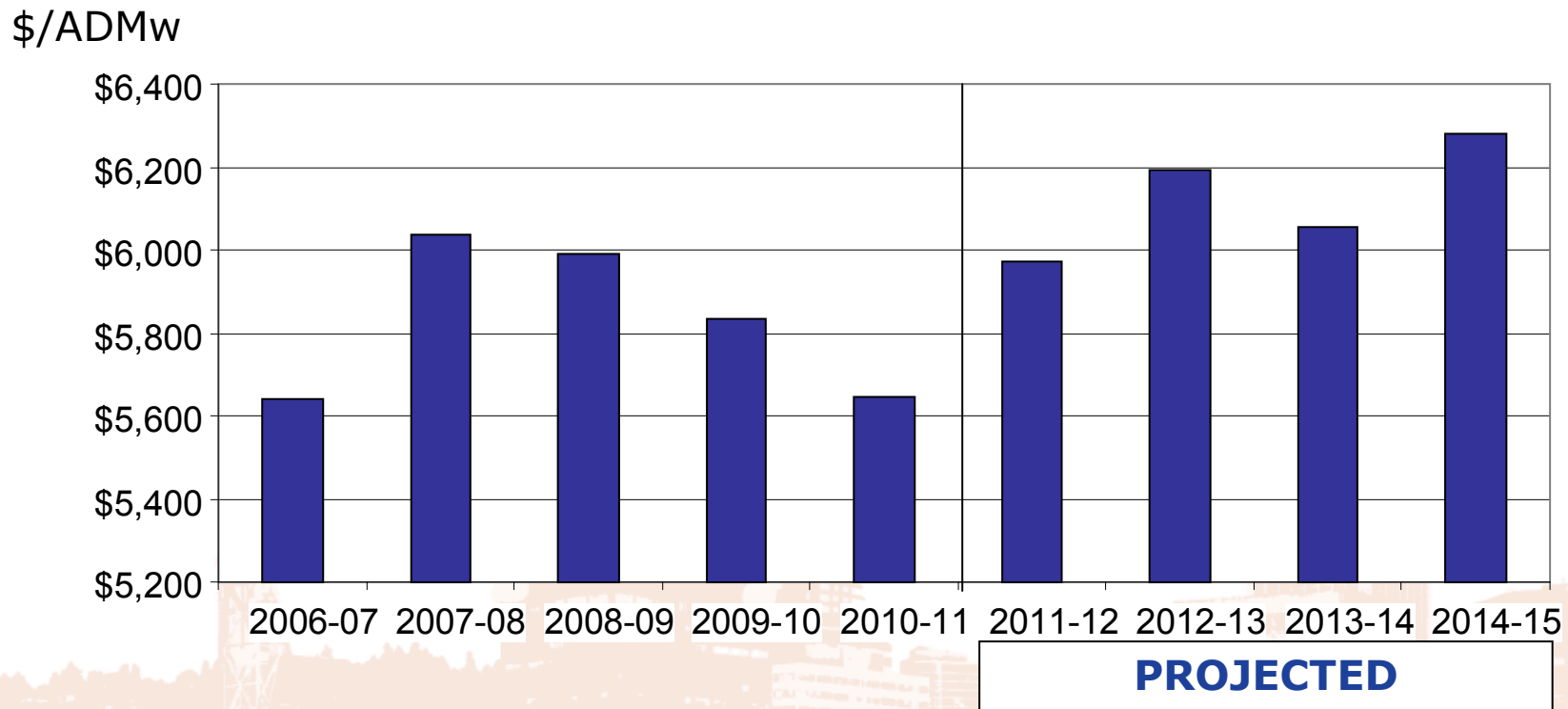
Key Assumptions:

- State School Fund: \$5.8B in this biennium and the next biennium
- Health Care Increases: 9% forecast for PAT, 5.2% for all others
- Wage Increases: FY 2011-12 = 2% for PAT, 0% for all others
- PERS Increases: 1.88% in 11-12 and an additional 0.6% in 13-14
- Number of positions stable



State School Fund Will Continue to Fluctuate On a Per Student Basis

State School Fund Revenues Per Student (ADMw)





Local Option Levy

- ▶ Existing levy expires June 2012
- ▶ Generates \$38 + million per year in Current Year Property Taxes
- ▶ Tax Rate = \$1.25 per \$1,000 in AV
- ▶ Compression is 17.48 %



Replacement Local Option Levy

- ▶ Effective July 2011, would expire June 2016
- ▶ Full allowable rate increased by State Legislature in 2007
 - Increases by 3% annually
 - Current full allowable rate is \$1,060.90 per ADMw
 - Compression estimated at 25%
- ▶ A new local option would replace the existing Local Option Levy in it's final year



Local Option Levy EXAMPLES

Levy Examples	Levy Rate	Amount Collected*
Existing Levy Rate	\$1.25	\$ 39.8M
Full Allowable Rate	\$1.90	\$ 57.6M
Rate to Collect \$12MM per year	\$1.60	\$ 48.6M

*Average annual amount collected. Actual annual collections increase over the life of the levy



Comparison with Other Local Districts*

School District	2010-11 ADMw	Estimated Local Option Rate	Estimated Bond Rate**	Total School District Rate
Tigard-Tualatin	14,243	1.00	3.6932	4.6932
West Linn-Wilsonville	9,294	1.50	2.9745	4.4745
Riverdale	560	1.07	2.8332	3.9232
Portland	53,023	1.60	2.0000	3.6000
Lake Oswego	7,176	1.39	1.4663	2.8563

- Districts with voter approved local operating and bond levies.
- PPS Example increases Local Option from \$1.25 to \$1.60. Assumes PPS Bond Levy of \$2.00 per \$1,000 AV

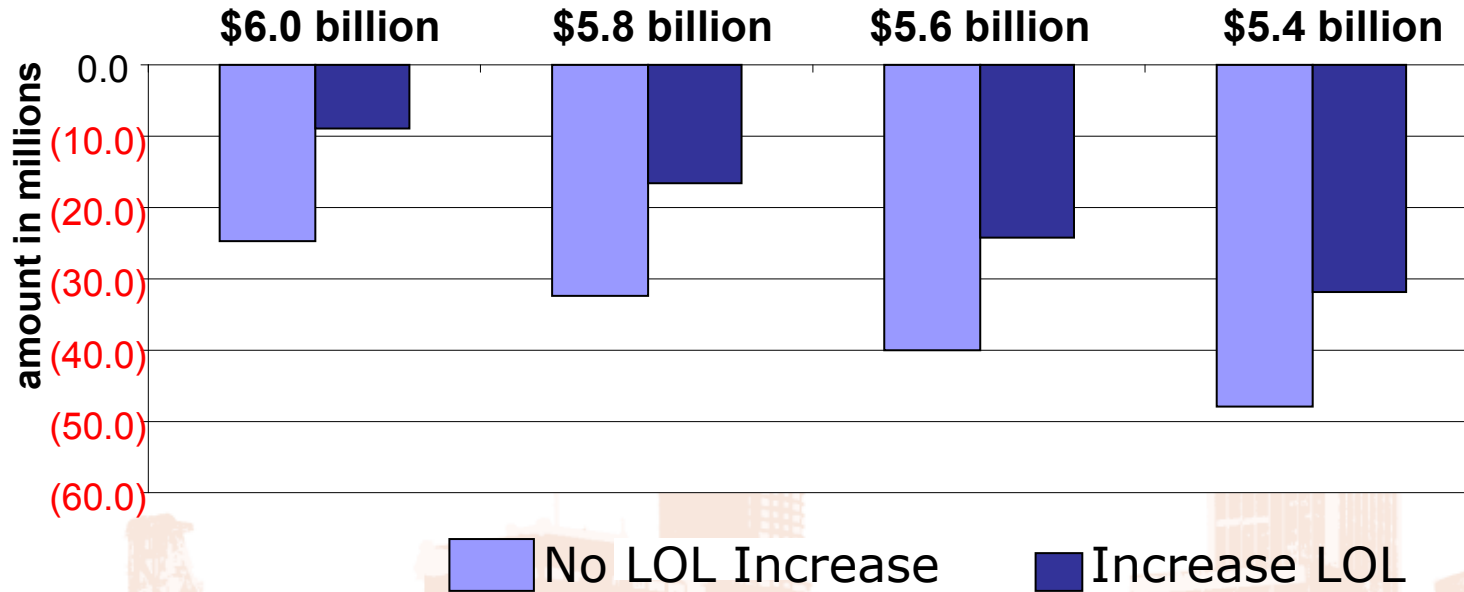
Source: Seattle Northwest Report, 2010-11 Comparable School District Tax Rates



FY 2011-12 Deficit

- with and without Local Option Levy increase

Operating Deficit at various SSF amounts with and without Local Option Levy Increase



Increase LOL assumes a replacement Local Option Levy that increases by \$16 mm



Agenda

- ▶ Oregon's Budget Environment for K-12
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- ▶ Priorities for 2011-12: High Impact Strategies
- ▶ Priorities Based Budget Process Overview
- ▶ Next Steps



We spend most of our budget on people

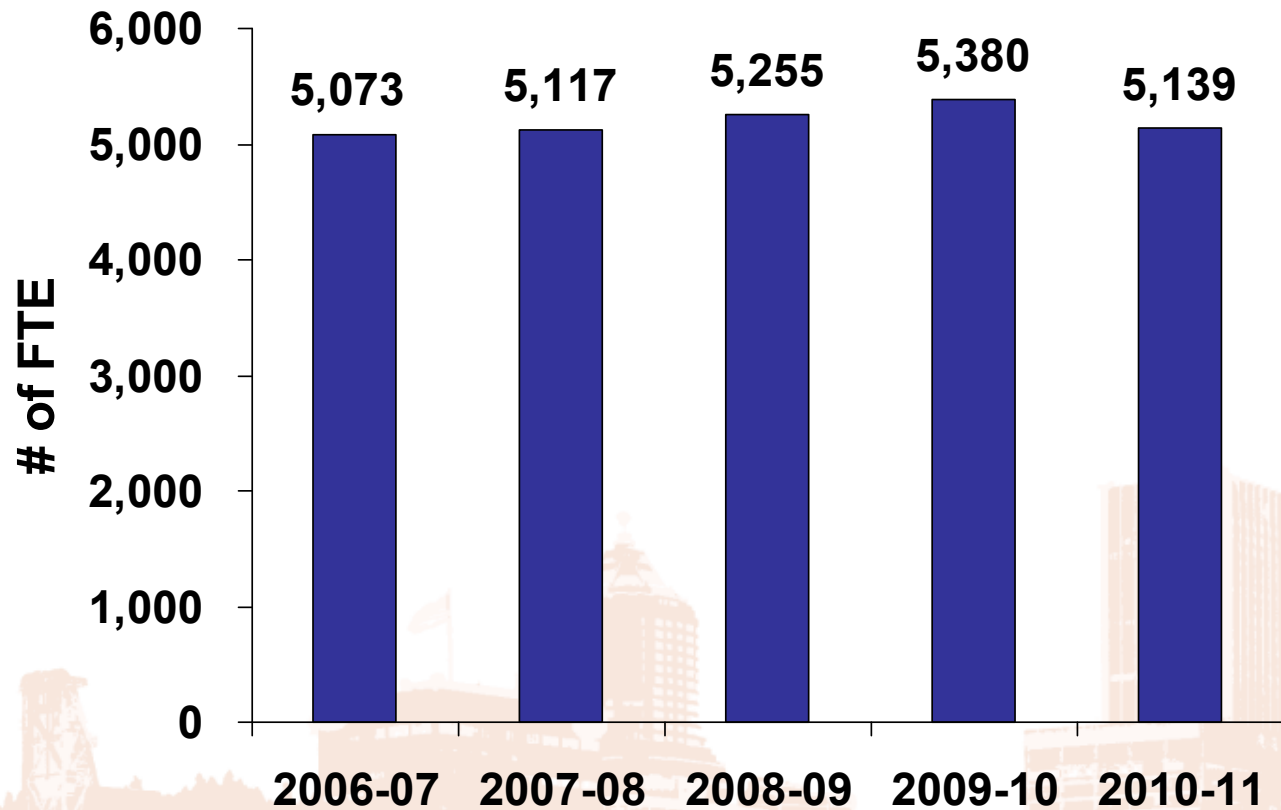
General Fund

Program Area	2010-11 Amended Budget	% of Total
Salaries & Benefits	\$349.5M	80.0%
Materials & Services	\$73.8M	16.9%
Capital Outlay	\$2.7 M	0.6%
Debt Service & Other	\$3.8M	0.9%
Fund Transfers	\$6.7M	1.5%
Contingency	\$0.5M	0.1%
Total Expenditures	\$437.0M	100.0%



Trend in Total Employees – Full Time Equivalents

Total Full Time Equivalent Position – Historical Trend



Full Time Equivalent (FTE): adjusts part-time positions into an equivalent of a full time position. All funds included.



Major Cost Categories – Annual Change



	2006-07	2007-08	2008-09	2009-10	2010-11*	2011-12*	2012-13*	2013-14*	2014-15*
■ Wages & Salaries	3.94%	11.94%	-2.13%	2.18%	0.42%	2.26%	2.85%	2.85%	2.85%
■ Benefits	1.67%	11.94%	2.77%	1.63%	6.26%	-2.92%	12.00%	5.57%	13.36%
■ Supplies & Materials	2.30%	12.66%	-11.14%	-3.50%	10.23%	1.95%	-0.65%	2.75%	0.00%

***PROJECTED**



Average Salary Growth Instructional Staff & School Administrators

Average Annual Compensation Per Full Time Employee

Group	2007-08	2008-09	2009-10	2010-11	CAGR* %
Teachers					
▶ Salary	\$58,536	\$58,319	\$59,960	\$61,384	2%
▶ Benefits	<u>\$25,337</u>	<u>\$26,997</u>	<u>\$27,824</u>	<u>\$28,657</u>	4%
▶ Total	\$83,873	\$85,316	\$87,784	\$90,041	2%
Administrators					
▶ Salary	\$94,034	\$96,015	\$95,749	\$97,130	1%
▶ Benefits	<u>\$31,710</u>	<u>\$32,359</u>	<u>\$32,780</u>	<u>\$32,720</u>	1%
▶ Total	\$125,744	\$128,374	\$128,529	\$129,850	1%

Base Salary: Without PERS, health insurance or other benefits

Benefits include PERS, health benefits costs and other employer paid benefits

*CAGR= Compound Annual Growth Rate



Employee Demographics: 46% of Staff Are Over 50 Years Old

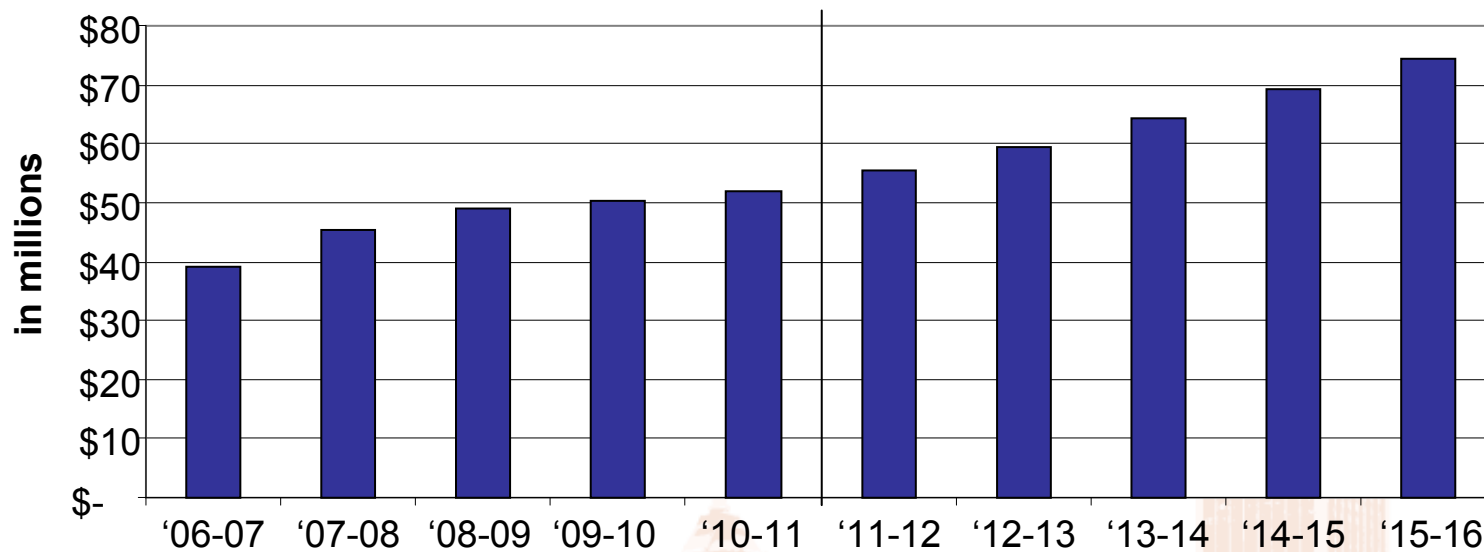
% of Employees in Each Age Category

Employee Group	<35	35-39	40-44	45-49	50-54	55+
Licensed Administrators (2%)	5%	12%	19%	17%	17%	30%
Non Represented Employees (5%)	15%	14%	13%	16%	11%	31%
Classified Staff (47%)	23%	13%	9%	10%	13%	28%
Teachers (45%)	19%	17%	13%	12%	15%	27%
Total	20%	10%	12%	11%	14%	32%



Historical and Projected Health Benefits – General Fund – All Employees

Total Health Benefits Cost - General fund



PROJECTED

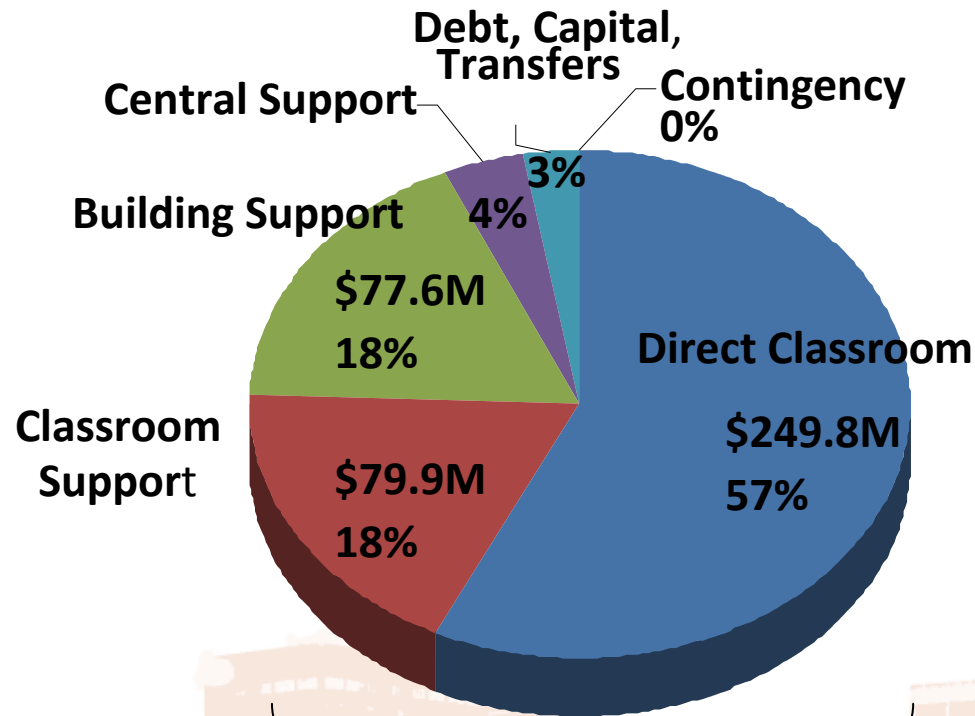
Assumptions:

Forecast for future years assumes about a 9% increase for Health Trust members – their last 2 years of costs have been less than that. Cost for all other groups will increase about 5% - due to the \$50 per month per year cap (the amount of increase PPS pays)



Most of our resources are in schools

2010-11 Amended Budget by Category



75% of budget spent directly on school instructional programs

Source: DBI

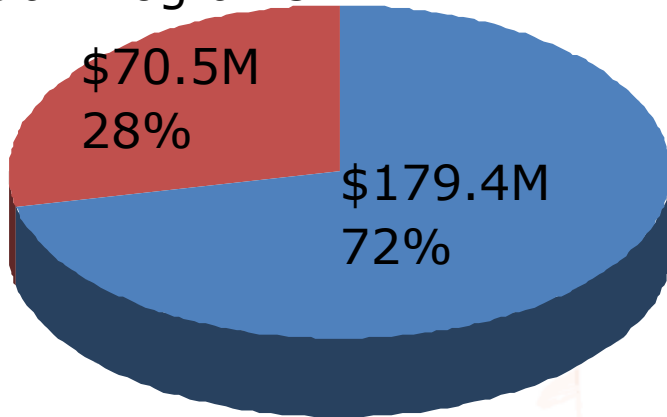


Classroom & Classroom Support Breakdown

2010-11 Amended Budget by DBI Category

Direct Classroom Instruction

Special Programs

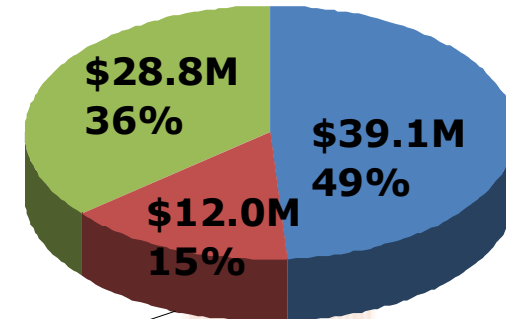


Core Programs

Classroom Support

School Administration;

Instructional Support -Students

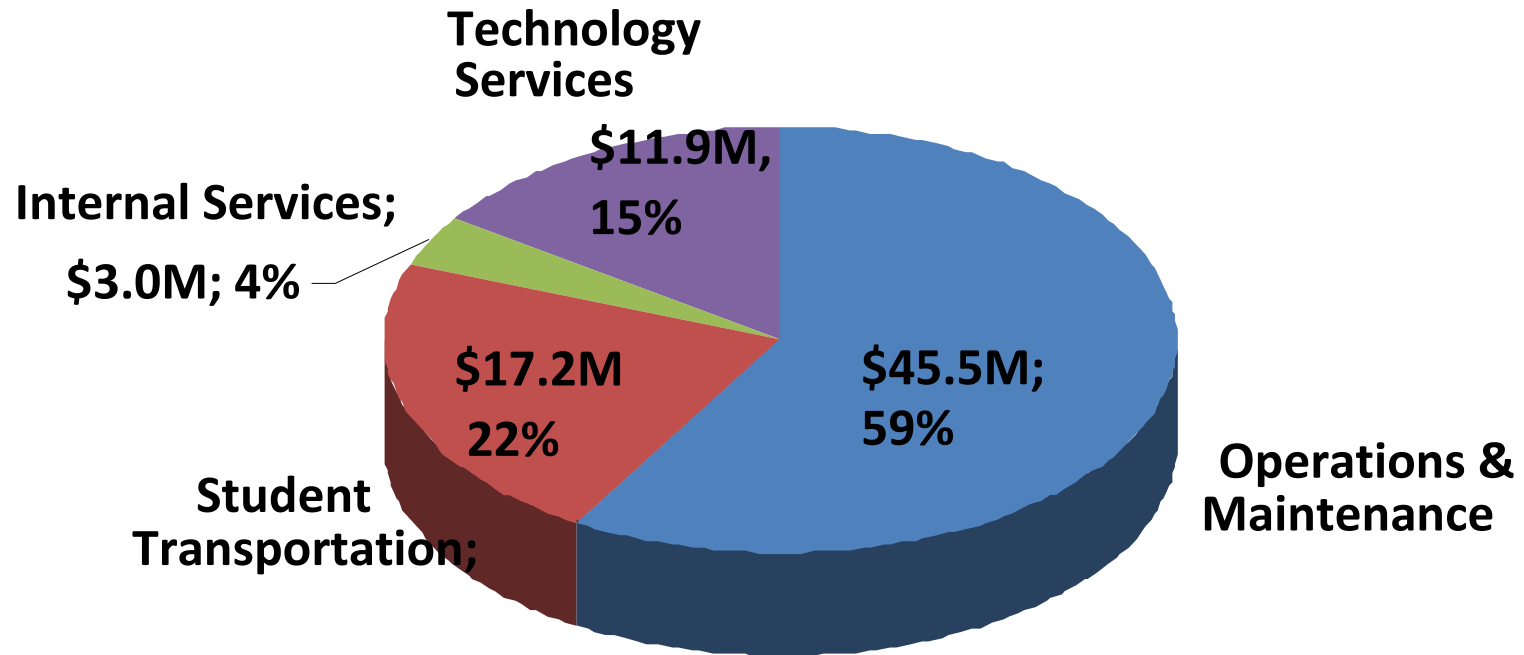


Instructional Support - Staff



Building Support Breakdown

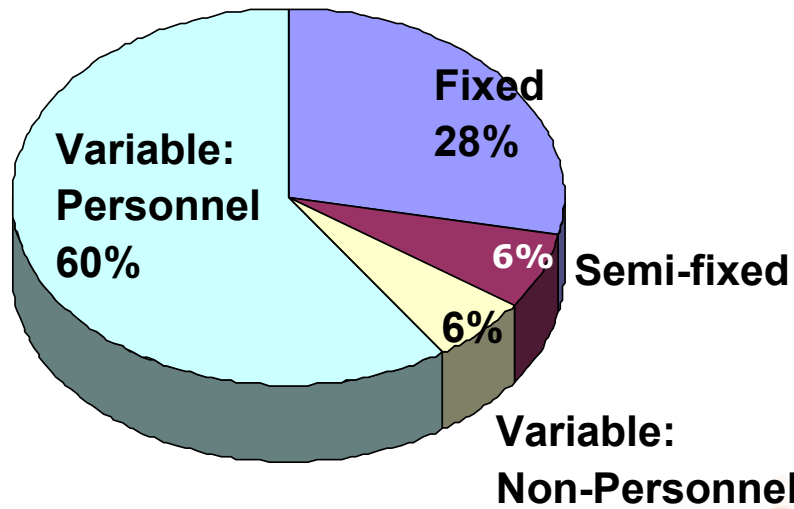
2010-11 Amended Budget by Category



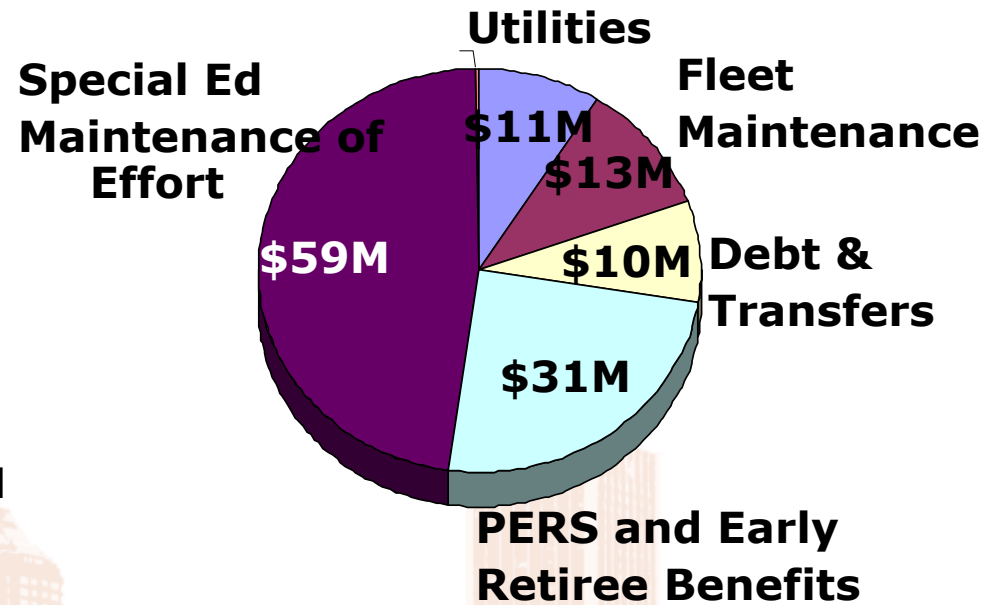


About 35% of our budget is categorized as “fixed” costs

Variable vs. Fixed Cost



Fixed Cost Breakdown



Category	Amount in millions	Percent of Total
Fixed	\$ 124.2	28.4%
Semi-fixed	\$ 27.3	6.2%
Variable: Non-Personnel	\$ 25.9	5.9%
Variable: Personnel	\$ 259.6	59.4%
	\$ 437.00	100.0%



School Size also impacts how we use resources

Illustrative Example: Beaverton vs. Portland Elementary/Middle school size

School Size Range	Beaverton		Portland	
	K5/K8	MS	K5/K8	MS
# of schools with < 400 students	4 (9%)	1 (10%)	26 (45%)	2 (20%)
# of schools with 400-600 students	16 (37%)	1 (10%)	29 (50%)	6 (60%)
# of schools with >600 students	23 (53%)	8 (80%)	3 (5%)	2 (20%)

Difference is largely driven by difference in facility capacities



Conclusion From Budget Analysis

- ▶ We will have to reduce services, programs and positions this year, under all reasonable assumptions regarding state & local revenue
- ▶ Need to use a priorities based approach to ensure we can have high impact with less resources



Agenda

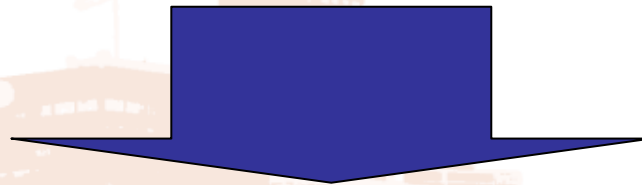
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2011-12 Budget Reality

- ▶ Considerable uncertainty in state budget will persist for next few months
- ▶ Likely operating deficit of \$30M+ based on conservative assumptions
- ▶ Limited reserves available



- ▶ New priorities based approach to building the budget



Priorities Based Budgeting Approach

Traditional Budgeting

- Identify size of cut needed
- Ask each department to identify possible cuts and quantify impact
- Prioritize cuts based on minimizing impact or cut across the board

Priorities Based Budgeting

- **Identify organizational priorities and target outcomes**
- **Review entire budget and align every budget element with a priority**
- **Invest in high priorities, cut low priorities**



Milestones Outcomes are the Top Priority Guiding Our Budget Analysis

Measuring Results: The Milestones Framework

1 Enter 1st Grade: Ready to Read

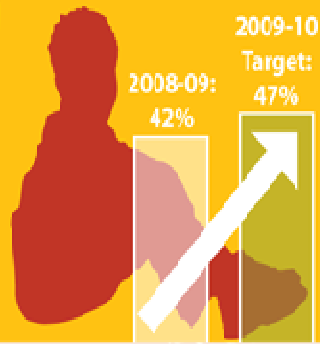
- ▶ Students recognize letter names and sounds and parts of words.



2 End of 3rd Grade: Reading to Learn

- ▶ Students are able to exceed the benchmark on the state reading test.

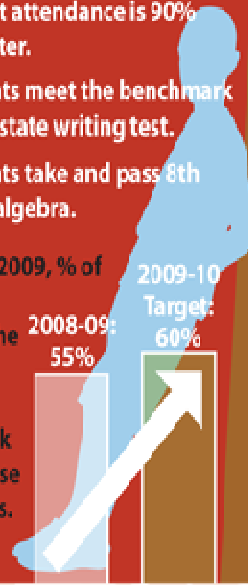
Target: In 2009, % of students exceeding the benchmark will increase by 5 points.



3 Middle Years: Ready for High School

- ▶ Student attendance is 90% or greater.
- ▶ Students meet the benchmark on the state writing test.
- ▶ Students take and pass 8th grade algebra.

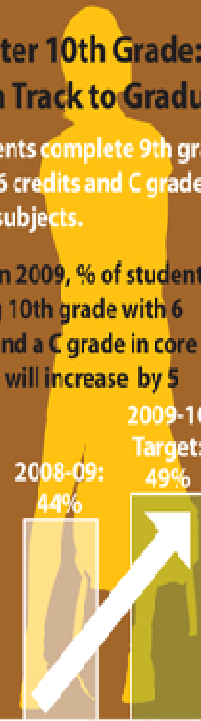
Target: In 2009, % of students meeting the 7th grade writing benchmark will increase by 5 points.



4 Enter 10th Grade: On Track to Graduate

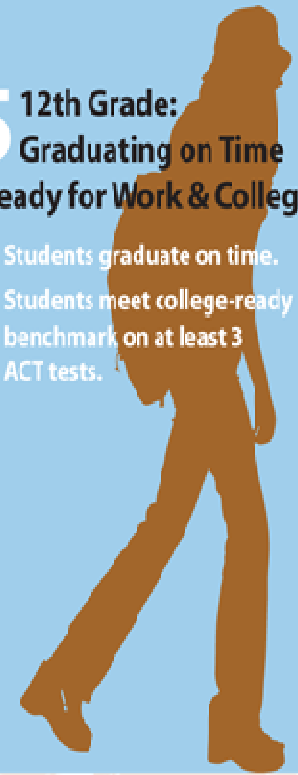
- ▶ Students complete 9th grade with 6 credits and C grade in core subjects.

Target: In 2009, % of students entering 10th grade with 6 credits and a C grade in core subjects will increase by 5 points.



5 12th Grade: Graduating on Time Ready for Work & College

- ▶ Students graduate on time.
- ▶ Students meet college-ready benchmark on at least 3 ACT tests.





8 District Priorities used for 2011-12 Budget Planning

Numbered In priority order

1) Improve Milestones
Outcomes

2) Successful Implementation
of High School System Design

3) Improve ELL and Special
Education Services

4) Increase cultural competence
& diversity of staff

5) Build shared leadership &
accountability for results

6) Measure & report on
effectiveness of schools and
programs

7) Design and implement Capital
Improvement Plan

8) Deepen community & student
engagement



Framework for Sorting Programs and Services

School Programs

Programs that are beneficial but not essential to student outcomes

Strategic programs/resources designed to improve Milestones outcomes

Essential services required to meet basic educational standards, contract and state mandates

Central Supports/Programs

Services or projects that are beneficial but not essential to priority outcomes

Strategic programs/services aligned to 2011-12 Priorities

Essential services required to meet basic safety/operational standards and state mandates



Budget Process Structure & Timing

Nov-Jan

Jan. 18-26

Jan 26 – Feb 15

Feb 15 - TBD

District Staffing Team:
Prioritization of School Staffing Elements

Central Services Vetting Team
Prioritization of central services & programs

“Critical Friends”
-PAPSA
-PAT
-PFTCE
-SEIU
-DCU

Review & comment on draft prioritization
(Jan 20)

Executive Committee

Review & finalize recommended prioritization

Board SAC & FAO

Review & affirm recommendations

Principal feedback at job alike and Leadership

Superintendent’s Budget Development



Agenda

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2011 Legislative Session

Political Landscape

- ▶ State Budget Framework
 - Governor Kitzhaber
 - The Legislature
- ▶ State Budget Timelines
- ▶ Education Coalition Priorities
- ▶ PPS Legislative Priorities



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Agenda for Next Work Sessions

- ▶ Review and discuss central services and programs preliminary priority rankings
- ▶ Review and discuss school based staffing prioritization
- ▶ Update on budget forecasts