

**Reynolds School District
Budget Process
July 1, 2012 to June 30, 2013**

The District prepares the budget in accordance with:

- Oregon Local Budget Law (ORS 294), provides standard procedures for the preparation, presentation and administration of the budget. Public involvement in budget preparation is mandated by this law. Oregon Budget Law requires the budget be balanced. Projected resources must equal projected requirements in each fund.
- The Oregon Department of Education (ODE), through the administrative rule process, adopts a chart of accounts that is used to classify revenues and expenditures. The Reynolds School District appropriates its expenditure budget at the major function level. The functional areas, as defined by ODE, are: Instruction, Support Services, Enterprise and Community Services, Facilities Acquisition and Construction, Other Uses (mainly transfers), Contingency and Unappropriated Ending Fund Balance.
- Governmental Accounting Standard Board (GASB) Statement 54, defines the hierarchy of fund balance classifications which are bound by constraints on resources reported in the fund.

Preparation of the budget involves many steps and months of collaborative work by District Staff. Once a proposed budget is developed, the Superintendent presents it and the Budget Message to the Budget Committee. The Budget Committee then reviews the proposed budget and receives public comments. The Budget Committee recommends revisions to the budget if needed and approves the budget and tax levy.

Once the Budget Committee approves the Proposed Budget, the Board of Education holds a public budget hearing to present the budget and adopts the budget and tax levy in June.

If a school district receives unanticipated revenue or a change in financial planning is required, a supplemental budget may be adopted to authorize a change in the budget within a fiscal year.

A supplemental budget cannot be used to authorize a tax levy.

The Board of Education may adopt a supplemental budget at a regular public meeting if expenditures in the supplemental budget are less than ten percent of the annual budget of the fund being adjusted. If the expenditures are greater than ten percent, the Board of Education must first publish the supplemental budget and hold a special hearing.

**Reynolds School District
Budget Committee Members
July 1, 2012 to June 30, 2013**

<u>Member</u>	<u>Status</u>	<u>Position</u>	<u>Term Ends</u>
Robert Lee	Board Member	Position 1	June 30, 2013
Valerie Tewksbury	Board Member	Position 2	June 30, 2013
Theresa Delaney-Davis	Board Chair	Position 3	June 30, 2013
Joseph Teeny	Board Member	Position 4	June 30, 2013
Tamara Schaffner	Board Member	Position 5	June 30, 2015
Dane Nickerson	Board Vice Chair	Position 6	June 30, 2015
Bruce McCain	Board Member	Position 7	June 30, 2015
Tamie Tlustos-Arnold	Budget Committee Member	Position #8	June 30, 2014
Trenton Harden	Budget Committee Member	Position #9	June 30, 2014
Stanley Madzellan	Budget Committee Member	Position #10	June 30, 2014
John Lindenthal	Budget Committee Member	Position #11	June 30, 2012
Andrew Haynes	Budget Committee Member	Position #12	June 30, 2012
Naomi Keck	Budget Committee Chair	Position #13	June 30, 2013
Raechelle Speidel	Budget Committee Member	Position #14	June 30, 2013

**Reynolds School District
Budget Message
July 1, 2012 to June 30, 2013**

For the past four years the staff and community in the Reynolds School District have struggled under the shadow of near bankruptcy that was exposed during the summer of 2008. A previous superintendent resigned and an interim superintendent took on the task of making massive reductions to ensure the future fiscal health of the district. In the first year, the interim superintendent predicted a \$5.4 funding level for 2009-2010. To balance the budget at that level, approximately \$15 million was cut from the budget, resulting in the loss of nearly 160 staff, increases in class sizes, and the elimination of major programs including elementary physical education, elementary media instruction, middle school competitive athletics, and the teen parent program. Central office was reduced to such a low level that the district fell behind in required state reports, causing a disruption in ODE payments in Federal grants. State funding stabilized in 2009-2010 at \$5.8 million, so more revenue came in to the district than predicted. By the time I became superintendent in January 2010, people were discouraged by the deep cuts and the early indication of larger than predicted revenue. The district was characterized by low morale and distrust regarding the district's fiscal condition.

When I became superintendent, I immediately focused on stabilizing the district's finances; however, more challenges developed. In March 2010, the budget officer resigned midway into the budget process, leaving data on two separate data bases that produced contradictory financial numbers. The business office was forced to reconstruct the entire past budget at the same time they were developing a new budget. By June 2010 the rebuild was finished and the ending fund balance grew by over \$10,000,000. Rather than happiness about the improving ending fund balance, many accused the District of making larger cuts than necessary and hiding money.

The beginning fund balance of \$17,346,938 in the 2010-2011 school year allowed the Board to provide modest increases to all staff. Further refinements in the management of the budget also caused the ending fund balance to continue to increase. New GASB laws required the district to consolidate all cash accounts into categories related to the ending fund balance. This meant that cash reserved for future expenses (such as unemployment costs) were gathered into the ending fund balance. As the ending fund balance grew, staff and community questioned why money was "found" and wondered if the staff was hiding additional money in the budget. In fact, the business office did comb through the budget to ensure that all funds were properly categorized and displayed. "Changes" in the budget display resulted from moving money in the budget to the proper revenue and expenditure categories, making all resources easy to identify. The Ending Fund balance for 2010-2011 rose to \$18,618,113.

The budget development for the 2011-2012 school year, was focused on being transparent with the community about the financial position of the district and making strategic investments to restore programs. We were able to restore half time elementary PE and increase elementary media services as well as middle school track and field. We partnered with Multnomah County to add Hartley Elementary and Reynolds Middle Schools to the SUN system, and we added 2.3 FTE at the middle school level. In addition we established a \$100,000 matching fund for Outdoor School fundraising and purchased \$400,000 in mathematics textbooks. As promised by the Obama administration, Federal stimulus ARRA funding was eliminated, resulting in major loss of classified teaching assistants. Since revenue has remained relatively flat, and expenditures have increased, the district is, once again deficit spending. The deficit spending for 2011-12 is forecasted at \$2.7 million, leaving an ending fund balance for 2011-2012 of \$15.8 million.

The budget for 2012-2013 has been built to contain deficit spending at no more than \$4 million, to retain current staffing levels, provide a full school year through at least 2013-2014, and maintain a required 5% unappropriated ending fund balance. Over the next two years, increased costs related to PERS combined with decreased revenues, will result in a total ending fund balance of about \$3.2 million by June 2014. Any additional spending or decline in

revenues in the next two years will reduce the ending fund balance and could force the District to make major cuts to maintain fiscal solvency.

Some may look at the budget with a lens of distrust and “doom and gloom”, others may claim that the district should spend down all of the ending fund balance immediately. I would like to offer a different view. Over the past three years the Reynolds School District administrative team has worked diligently to construct a budget that clearly shows all resources and how our money is spent. It has consistently informed the public of current financial status even when frustrated constituents became angry as finances became more transparent. In addition, the Board of Education has continued to spend frugally in order to preserve funds during the economic downturn. This approach will maintain class size, full programming, and a full school year for at least two more school years.

I am proud of the work accomplished in the past two years to create a budget that is responsible and transparent. Thousands of hours have been spent to make sure every expense is in the proper function and object. No money is “buried” and no expenses are hidden in unusual categories. Staff members are no longer funded in categories unrelated to their work. The narrative section provides a detailed explanation of each function to aide the Board and public in their understanding. I think you will find that this budget and provides the basis for responsible budgeting and spending now and in the future.

Budget Development Philosophy

The administrative team used the following principles to develop the budget for 2012-2013:

Give priority to expenditures that directly impact students. In particular, focus on:

Increasing student achievement.

Providing excellent educational options for all students regardless of race, ethnic heritage, gender or socioeconomic status.

Ensuring equitable outcomes for all students.

Increase fiscal responsibility by spending wisely and creating a budget that is transparent and accessible.

Implement efficiencies whenever possible.

Make investments that leverage our revenue to increase the value of resources.

Maintain buildings and other capital investments.

Limit deficit spending for 2012-13 to \$4 million or less.

Work for sustainability over time.

Adhere to Board policy to maintain a 5% unappropriated ending fund balance.

Changes in Accounting Rules

Governmental Accounting Standards Board (GASB) Statement 54 requires a restructuring and redefinition of fund balance components for fund balance after 6/30/2011. To improve the reporting of fund balance, a hierarchy of fund balance classifications has been created based primarily on the extent to which governments are bound by constraints on resources reported in the funds. This approach is intended to provide users more consistent and understandable information about a fund’s net resource.

The hierarchy of five possible classifications of fund balance are:

1. **Non-spendable (Unappropriated)** – balances in permanent funds and inventories that are permanently precluded from conversion to cash.
2. **Restricted** – constrained to a specific purpose by enabling legislation, external parties or constitutional provisions.
3. **Committed** – constraints imposed by the government using the highest level of decision-making authority (PERS, Unemployment, Retirement).
4. **Assigned** – amounts intended for a specific purpose by a government’s management.
5. **Unassigned (Contingency)**– amounts available for any purpose.

State Economic Forecast

The latest forecast from the State of Oregon was released in March 2012. The news on the economic recovery in Oregon is discouraging. The state estimates that the job market will not be recovered until 2014. Since Oregon revenue is weighted heavily on income and property taxes, collections of both suffer when residents are out of work for a prolonged period of time. Throughout the state, schools are making staffing reductions and shortening school years. This, in and of itself, will result in declining state tax revenues. I recommend that the District preserve a full school year and as many jobs as possible.

The state revenue forecasts continue to include lowered projections for revenue in the current 2011-13 biennium. The March 2012 forecast lowered state revenue by \$28.6 million, with the total reduction to date of \$305.5 million less in state revenue. The impact of this trend may be that the district will not collect the amount of school funding that the state originally promised. If the state revenue does not reach the level forecasted, the district revenue may be reduced. I recommend maintaining strong financial reserves to guard against the need to make mid-year reductions in the 2012-13 school year.

Federal Funds

The federal funds from grants are expected to be reduced for 2012-13. We will not learn the federal funds allocations from the Oregon Department of Education until after the budget cycle, because the federal fiscal year is October 1 to September 30. The 2012-13 proposed budget assumes a 5% reduction in Title I funds. This level of reduction is equal to 5.0 FTE of licensed staff.

To protect services to vulnerable children living in poverty, I am including in the 2012-13 Proposed Budget that the district invest \$800,000 from the general fund for mandatory Title I set-asides that will provide school choice and tutoring (called supplemental educational services) to assist these students in catching up academically. Our district wide poverty level is nearly 76%. Four schools have poverty rates of over 90%. This will assure that Title I funds can continue to be used to provide academic supports during the school day for children who live in poverty and are performing below benchmark. We must stay on course with helping these children to reach and pass benchmarks so we can ensure their successful graduation and meet the district’s AYP requirements, which will eliminate the need for the required set-asides.

The stimulus (American Recovery and Reinvestment Act) funds have been fully spent. These funds were provided as a bridge through the economic down-

turn and as the Obama administration promised, they were eliminated and are no longer revenue source for the District.

The District is at a critical juncture -- We must balance a challenging set of circumstances of: declining revenue; increasing expenditures; an ending fund balance that provides stability; deficit spending, which must be addressed by reducing expenditures before reserves are depleted; increasing class sizes; and an urgent need to increase academic achievement.

Impact of 2010-11 Audit

Our District remains committed to fiscal solvency. During the 2011-12 school year, an additional \$2.41 million (Chuck Rhoads check #) was added to the ending fund balance. The upward adjustment was made at the conclusion of the 2010-11 audit. The funds came from liabilities that were validated and cleared in the audit process.

The Board plans to use the ending fund balance to preserve a full complement of programs, including music, PE and counseling; maintain a full school year and the current length of school day; maintain current class sizes; and preserve jobs (staffing) that are likely to increase achievement.

Budget Assumptions

The School Board has been experiencing escalating pressure for available resources. Class sizes have increased significantly – yet remain similar to those in our neighboring districts. Negotiations are ongoing with our licensed and classified bargaining units. The District is in mediation with the classified unit. The licensed unit declared impasse and we are in the 30-day cooling off period until May 19, 2012.

The cost of any additional contractual obligations to staff are not contained in the 2012-13 proposed budget. Any increased costs or savings resulting from the outcome of negotiations will impact the ending fund balance.

The proposed budget was built with the assumption that salaries would remain flat for all units, licensed, classified, supervisors and administrators. The benefit costs are estimated to rise slightly due to increases in PERS Bond rates due to the economic downturn, which increases the unfunded liabilities and therefore the bond rates increase. All non-salary expenses are estimated to increase by 3%. For 2012-13, this means that we are planning to spend \$3,951,978 from end fund balance to maintain the current level of programs and a full school year.

The budget document is also becoming more accurate due to the use of forecasting software that enables us to use actual expenses instead of estimates. For the 2012-13 budget, salaries, insurance and substitutes are budgeted to actual. This has enabled us to retain services in the classroom by reducing in some areas of personnel costs. The risk for the District in using actual expenditures is that you have less room to maneuver in the budget to address actual needs. For example, if we have a particularly hard cold/flu season next year, our use of substitutes goes up. I am comfortable that management can monitor and adjust to meet such changes.

If the state or federal revenues decrease, or if non-salary expenses rise more than 3%, or salary and benefit costs increase the ending fund balance will be depleted more quickly. The school year, school day, class size and current programs will be impacted negatively.

Conclusion

I urge the budget committee and board members to continue the conservative approaches to fiscal management that have enabled the district to maintain a full school year and programs to students. The District can be proud of the financial management that positions us to continue to have choices.

The budget meets all the state requirements, accounting guidelines, and maintains a full school year with less than \$4 million in deficit spending. I endorse the budget document and encourage approval of the 2012-13 proposed budget which addresses the strategic priorities to fullest extent possible with the resources available.

Respectfully,

A handwritten signature in blue ink that reads "Joyce L. Henstrand". The signature is written in a cursive style with a large, sweeping flourish at the end.

Joyce L. Henstrand, PhD

Superintendent

**Reynolds School District
Budget Timeline
July 1, 2012 to June 30, 2013**

Phase 1: November - December

1. Strategic Budget Team

- A) Discusses individual departments' initiatives and costs
- B) Reviews internal budget communication strategy within schools/ departments
- C) Examines the remaining outstanding items from the Reynolds Tomorrow survey
- D) Completes the Position Control Spreadsheet (12/05/2011)

Phase 2: January - March

1. Board approves the Budget Calendar

2. Superintendent approves the strategic budget team priorities

3. Board reviews and approves the budget priorities

4. Finance Committee reviews the budget process and expectations

- A) Budget 101 - understanding the revenue sources
- B) Budget workshops
- C) Fill Vacant Budget Committee position

5. Business Services

- A) Assigns building budget allocation amounts (1/16/2012)
- B) Distributes the Budget Worksheets to Departments and School (1/16/2012)
- C) Holds the Budget Workshops (March)
- D) Business Services determines budget assumptions (1/16/2012)

Phase 3: March - April

1. Business Services works with Schools and Departments to develop their budgets

2. Business Services builds the comprehensive budget

Phase 4: May - June

1. Budget Committee 1st meeting (May 3, 2012)

- A) Budget Committee appoints the Presiding Officer
- B) Budget Committee receives the Superintendent's Budget Message
- C) Strategic Budget Team presents the comprehensive view of the changes
- D) Strategic Budget Team responds to questions from budget committee

2. Budget Committee 2nd meeting (May 10, 2012)

- A) Budget Committee invites and listens to public testimony
- B) Strategic Budget Team responds to questions from 1st meeting
- C) Budget Committee approves the budget and tax levies - OR one more meeting

3. Budget Committee 3rd meeting (May 17, 2012) - if needed

- A) Strategic Budget Team responds to questions from 2nd meeting
- B) Budget Committee approves the budget and tax levies

4. Budget Hearing (June 13, 2012)

- A) Board holds budget hearing, adopts the budget, and makes appropriations and approves tax levies

**Reynolds School District
Budget Calendar
July 1, 2012 to June 30, 2013**

Board of Directors Meeting	July 13, 2011
Board Appoints Budget Officer	
Board of Directors Meeting	February 8, 2012
Consider Budget Calendar	
Publish 1st Notice of Budget Committee Meetings	April 6, 2012
5 to 30 Days Before the 1 st Meeting (Gresham Outlook)	
Publish 2nd Notice of Budget Committee Meetings	April 20, 2012
5 to 30 Days Before the 1 st Meeting (Gresham Outlook)	
1st Budget Committee Meeting	May 3, 2012
Appoint Presiding Officer	
Receive Budget Message	
Review Budget Document and Discuss Relevant Changes	
Respond to Questions from Budget Committee	
2nd Budget Committee Meeting	May 10, 2012
Budget Committee Deliberations	
Respond to Questions from First Meeting	
3rd Budget Committee Meeting (if needed)	May 17, 2012
Publish Notice of Budget Hearing (only once).....	May 25, 2012
5 to 30 Days Before the Hearing (Gresham Outlook)	
Publish Financial Summaries	
Board of Directors Meeting - Conduct Budget Hearing	June 13, 2012
Conducted by School Board	
Open to Public	
Run Budget Hearing Concurrent with Board Meeting	
Board of Directors Meeting - Enact Resolutions	June 13, 2012
Adopt Budget	
Make Appropriations	
Impose and Categorize Taxes	
Amend 11-12 Appropriations (if necessary)	
Submit Tax Certification Documents	July 15, 2012
To County Assessor Office by July 15, 2012	
File Budget Document with County Recorder and Designated Agencies	

**Reynolds School District
Organizational Chart: Administrators
July 1, 2012 to June 30, 2013**

