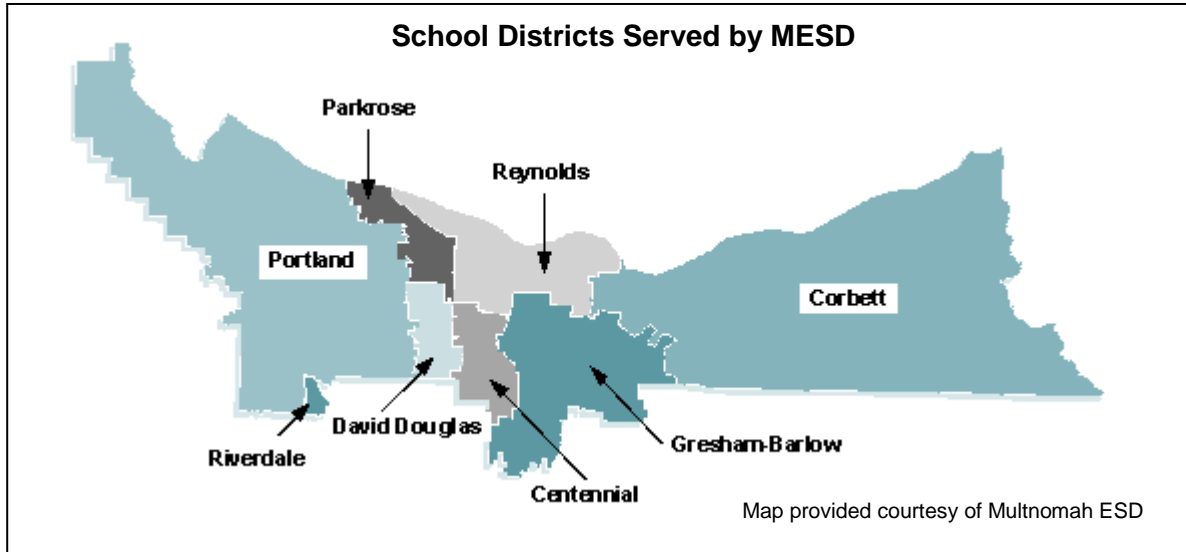


TSCC Budget Review 2015-16

Multnomah ESD

Location:

The Multnomah Education Service District serves the eight public school districts within Multnomah County. District boundaries extend into Clackamas and Washington counties along school district boundaries.



Background:

The seven member board that governs the district serves without compensation. All commissioners are elected to four-year terms: five from zones, and two elected at large. The Multnomah Education Service District (MESD) evolved from the county school superintendent's office, first established in 1854. Responsibilities of that office were transferred from county government to an independent district in 1957. The state legislature formally established the ESD in 1963. In 1978, the name of the district was changed from Intermediate Education District to Multnomah Education Service District. Today, MESD staff work in over 160 schools and 25 community sites.

The Multnomah ESD assists the Oregon Department of Education by administering state-level services and minimum education standards. The district also provides specialized education services and facilities on a cooperative basis to its component school districts. Many of the specialized services are those with limited demand that can be provided more efficiently and cost effectively on a regional basis. Costs for support services for Multnomah ESD are more than twice the cost of instruction due to the special needs of students. This is a reversal of the instruction to support ratio of K-12 districts.

General Information:

Local programs and services are provided by in two ways: "Resolution Programs" and via intergovernmental agreements (see page 4). Resolution programs are those that, through component district resolutions, are authorized by at least two-thirds, or six of the eight, school boards representing a majority of total county students. With an enrollment of just over 50% of the total number of students served by MESD, Portland Public School District

must be one of the authorizing districts. The following table shows the districts by number of students.

District	Total Schools	Total Enrollment*	Percent of Total
Centennial	10	7,503	7.0%
Corbett	3	1,024	1.0%
David Douglas	16	13,062	12.1%
Gresham-Barlow	20	13,349	12.4%
Parkrose	6	4,032	3.7%
Portland	92	54,451	50.6%
Reynolds	19	13,688	12.7%
Riverdale	2	584	0.5%

* Enrollment = 2013-14 ADMw (Source: MESD Accountability Report)

Senate Bill 250, adopted in the 2011 Legislative Session, substantially changed how ESD's operate. The bill:

- Allows component school districts to opt out of ESD services and receive funding for ESD services directly from the state
 - In 2015-16, none of the MESD component districts have chosen to opt out of MESD services
- Provides for additional oversight on ESD's from the Office of Regional Education Services, operating under the direction of the State Board of Education

Overview:

The 2015-16 Budget was developed using a total two-year education funding level of \$7.5 billion. Of this amount, approximately \$38.3 million would be attributed to state education service districts in year one, with MESD receiving just over \$8.1 million.

The district used the following strategies to develop this budget:

- Reflect the needs and wants of the district's customers in the Local Service Plan
- Pursue reasonable grant and contract opportunities
- Decrease expenditures for operations, as appropriate

Overall, the budget decreases just over \$7.4 million, or 8.5%. This is primarily due to reductions in state and local funding.

Significant changes from 2014-15 to 2015-16:

- Closure of Alpha High School due to less need for services from Gresham-Barlow School District
 - Reduction of Functional Living Skills (FLS) services
- Legislation requiring full day kindergarten
 - Additional need for assessment services

The budget committee recommended approval of the Proposed Budget to the Board with one change:

- Amounts budgeted in ending fund balance were moved to contingency

Multnomah ESD	2012-13 Actual	2013-14 Actual	2014-15 Budget	2015-16 Budget
Total Budget All Funds	94,336,235	76,835,622	87,430,763	79,991,040
Change from Prior Year	+1.4%	-18.6%	+13.8%	-8.5%
Beginning Balance All Funds Combined	17,044,785	14,544,504	12,777,165	12,308,812
Change from Prior Year	-20.8%	-14.7%	-12.2%	-3.7%

Most the district's operations are budgeted in three funds: the Resolution Services Fund, the Contracted Services Fund, and the Operating Fund.

Resolution Services Fund

- Includes all State School Fund formula dollars (property taxes and state General Fund)
- By law, must budget 90% of revenues for resolution services
- To ensure only 10% is spent on non-resolution activities, MESD transfers 10% resources to Operating Fund
- In 2015-16, the Resolution Services Fund transfer to the Operating Fund is **\$3,830,500**

Operating Fund

- Functions as the district's General Fund
- Transfers from the Resolution Services and Contracted Services funds account for **94%** of fund resources, excluding beginning fund balance
- Additional revenue comes from charges for services, rental/lease income and interest earnings

Contracted Services Fund

- Includes grant funding and contract revenue from local, state and federal sources
- All programs offered are for services that component districts pay for outside of resolution services
- A maximum 10% surcharge for administrative services is added to each contract and transferred to the Operating Fund
- This budget includes a transfer of **\$1,377,937** to the Operating Fund

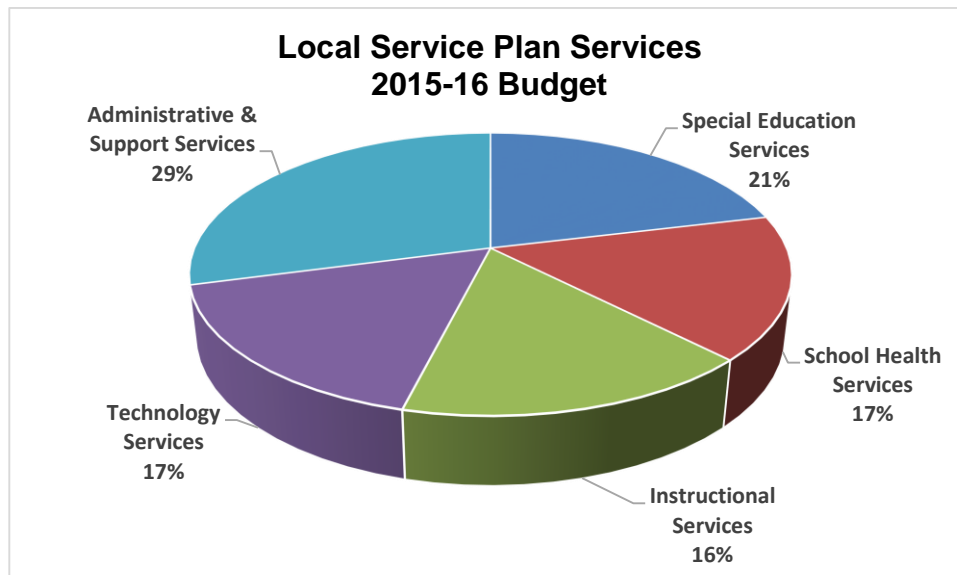
Resolution Programs/Services

Resolution programs are funded from property taxes and state school fund revenue. The state allocates support by granting ESDs a percentage of the total amount available for K-12 school funding.

- Budget assumes 49% of available state funding for ESDs
- Each ESD receives a fixed share of that total based on the ADMw of its component school districts
- Similar to K-12 districts, ESD's participate in an equalization process to standardize the amount of funding per student statewide

Component school districts select resolution program services within an allocated dollar amount. Basically, each district is given a menu of services from which to choose. This is called the Local Service Plan. The plan must:

- Include services from the following categories: special education, technology, school improvement and administrative support
- Include any "entrepreneurial services" that the ESD offers to entities that are not component school districts
- Services offered may be purchased as "all or nothing," in part, or on an FTE basis



Contracted Programs/Services

In addition to resolution programs, component school districts may also contract with MESD for services such as cooperative purchasing, elementary science projects and vocational education. These services are accounted for in the Contracted Services Fund.

- The amount spent on contracted services can be seen as an indicator of the quality of services provided by MESD since purchase of these services is optional
- Also reflects the inability of districts to accurately predict the need for services when “purchasing” MESD services

Operating (General) Fund:

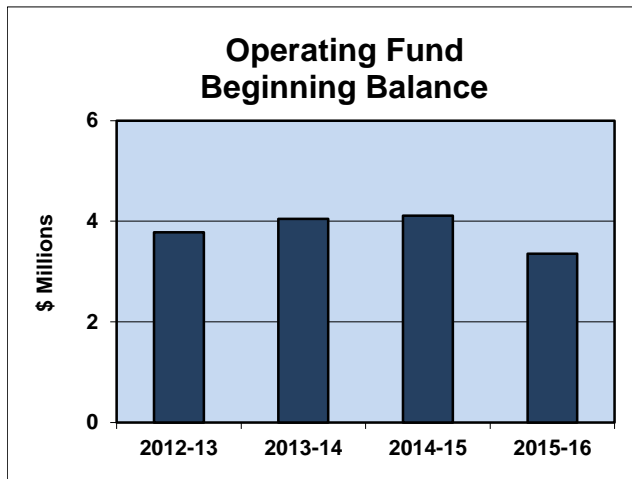
Operating Fund revenue decreased about \$0.8 million, or 8.5%, from 2014-15. A transfer from the Resolution Services Fund reflecting 10% of property taxes and state school funding revenue, overhead charges for services provided in the Contract Services Fund, and unused beginning fund balance comprise most of the fund’s resources. Overall expenses for support services decrease across all divisions in this budget, with the exception of a slight increase in facilities services.

Multnomah ESD	2012-13 Actual	2013-14 Actual	2014-15 Budget	2015-16 Budget
Operating (General) Fund	7,863,075	9,653,079	9,650,122	8,828,207
Percent of Change from Prior Year	-22.8%	+22.8%	-0.03%	-8.5%

Beginning Fund Balance:

The Beginning Fund Balance in the Operating Fund:

- Decreases by just under \$750,000 in 2015-16
- Accounts for about 38% of total fund resources



Overall Revenues:

Like K-12 districts, the MESD receives a set amount of funding from the State of Oregon. If property taxes received are lower than projections, the state makes up the difference. Prior to budget development, the district receives an estimated amount of funding from the Department of Education; the district then backs into the property tax revenue amount.

- MESD estimates the total amount to be received from the combination of property taxes and the State School Fund to be \$38,305,000
 - Increase of 7.3%
- Decrease of just over \$5.0 million in ‘Other State Revenue’
 - The District entered into a new contract with state in 2014-15 and the 2014-15 budget reflected an estimate of service level
 - Current budget reflects a refined estimate based on 2014-15 experience

MESD 2015-16 Approved Budget Resources				
Dollars in Millions				
	2014-15 Budget	2015-16 Budget	Change Increase/(Decrease)	
			\$	%
Property Taxes	27.4	30.2	2.8	10.2%
Donations & Gifts	0.08	0.1	0.0	25.0%
Federal	1.8	1.8	0.0	0.0%
State	15.0	10.1	(4.9)	-32.7%
Local	18.0	15.4	(2.6)	-14.4%
Other	6.0	4.1	(1.9)	-31.7%
Interest	0.08	0.08	0.0	0.0%
Overhead Revenues	1.6	1.4	(0.2)	-12.5%
Fund Transfers	4.7	4.6	(0.1)	-2.1%
Sub-Total Resources	74.7	67.8	(6.9)	-9.2%
Beginning Fund Balance	12.8	12.3	(0.5)	-3.9%
TOTAL RESOURCES	87.5	80.1	(7.4)	-8.4%

Overall Expenditures:

Overall operating expenses decrease \$7.5 million from 2014-15 levels. Expenses over all functional service areas decreased, except for a slight increase in transit payments.

Transit payments are “flow through” dollars from the state to component school districts.

- Not all school districts receive the same percentage of transit dollars. To provide consistency, the ESD established a policy to equalize transit dollars across all eight districts
- This budget reflects the equalized phase-in with component districts receiving 25% of their resolution dollars in transit dollars
- Transit payments are budgeted in the Resolution Services Fund and total \$13.6 million in 2015-16

The expenditure budget reflects two adjustments to the current services provided by MESD:

- Closure of Alpha High School due to less need for services from Gresham-Barlow School District
 - Reduction of Functional Living Skills (FLS) services
- Legislation requiring full day kindergarten
 - Additional need for assessment services

Additional changes include:

- Increase of 1.0 FTE for a Dual-Credit facilitator
 - Works as liaison between component district high schools and local community colleges to coordinate students’ efforts to get college credit for some high school courses.

- Decrease in technology services budget
 - Major hardware purchases occurred in 2014-15 in student information services and business systems support
 - No further purchases are expected for 2015-16 for either of these groups
 - ISP routers will be upgraded in 2015-16, offsetting some of the savings

MESD 2015-16 Approved Budget Requirements				
Dollars in Millions				
	2014-15 Budget	2015-16 Budget	Change	
			Increase/(Decrease) \$	%
Instruction	14.0	12.4	(1.6)	-11.4%
Support Services	28.2	27.1	(1.1)	-3.9%
Enterprise & Community Services	11.2	6.7	(4.5)	-40.2%
Facilities & Acquisition	0.4	0.0	(0.4)	-100.0%
Transit Payments	13.5	13.6	0.1	0.7%
Debt Service	3.1	3.2	0.1	3.2%
Overhead Charges	1.6	1.4	(0.2)	-12.5%
Fund Transfers	4.7	4.6	(0.1)	-2.1%
Contingencies	1.9	8.3	6.4	336.8%
Sub-Total Requirements	78.6	77.3	(1.3)	-1.7%
Ending Fund Balance	8.9	2.8	(6.1)	-68.5%
TOTAL REQUIREMENTS	87.5	80.1	(7.4)	-8.5%

Multnomah ESD	2012-13 Actual	2013-14 Actual	2014-15 Budget	2015-16 Budget
Personnel Services	43,658,066	31,497,045	35,472,326	33,127,526
Materials & Services	11,436,816	10,087,979	18,214,249	12,940,415
Transit Payments	13,555,146*	13,321,333	13,460,615	13,578,936

* One-time transit payment (\$3.5 million) to component districts not reflected in worksheets; part of revised budget.

During budget development MESD does not know component districts' service plan requests. As a result, this budget is constructed using current services as a base assumption. Once the district receives all of the service plan requests from the school districts, it will submit budget changes to the Board prior to adoption.

Personnel Services:

Personnel costs comprise 52% of the district's total operating budget. The budget reflects a decrease of 12.6 FTE, most from Special Education with some offset in Instruction, reflecting the closure of Alpha High School and increased assessment services.

The district continues to review its FTE calculations. Because of the variety of types of employees – full-time employees can work 190, 240 or 260 days a year - what is an FTE for one group is not an equal FTE to another. The result is that while there is a loss of positions in this budget, it is difficult to put an FTE to the number.

By Division	2014-15	2015-16	Difference
Administration	6.12	4.90	-1.22
Facilities	8.75	8.75	0.00
Business Services	8.00	8.00	0.00
Human Resources	6.26	6.60	+0.34
Technology Services	33.75	35.75	+2.00
Special Education	160.54	141.81	-18.73
Health & Social Services	111.58	107.86	-3.72
Instructional	80.54	89.22	+8.68
Total FTE	415.50	402.89	-12.61

This budget includes:

- Merit increases for eligible employees
- Use of salary schedules per tentatively agreed upon contract for MESDEA represented employees
 - The ESD recently reached an agreement on a new contract after ten months of negotiations
- PERS defined rates of 5.55% for Tier I/II, 0.86% for OPSRP, and 4.97% for Fire and Police
- Contribution rate for PERS pickup is 6%
- Increased employer contribution for health insurance premiums capped at 6%

Materials and Services:

Overall Materials & Services are decreasing 29.0% in 2015-16.

Capital Outlay:

The Facilities and Equipment Reserve Fund budgets capital outlay for improvements to ESD facilities. In addition, it also accounts for the setting aside of resources for future acquisition of major software, equipment and furniture.

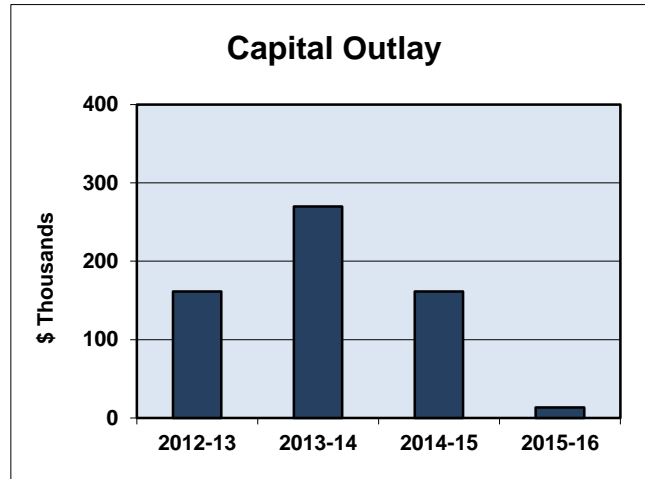
The district reviews the insured value of buildings and assets over the previous two years to determine an amount that should be set aside for future improvements. If an improvement is expected to occur:

- In the current year, 100% of the expense is budgeted
- In one to five years, 20% is budgeted
- In six to ten years, the district sets aside 10% of the expense

The district budgeted for minor capital outlay in 2015-16.

- Patio replacement at Ainsworth Building
- Renovation of Ainsworth vehicle shed as part of Exterior Weatherization Project

The amount included in the chart reflects the district's categorization of expenditures. A total of \$646,631 is budgeted in the Facilities and Equipment Reserve Fund - \$0 for capital outlay and \$646,631 for purchased services.



Multnomah ESD	2012-13 Actual	2013-14 Actual	2014-15 Budget	2015-16 Budget
Capital Outlay	161,230	270,035	161,352	13,402

In addition, MESD will:

- Upgrade operating software and hardware for existing HVAC controls
- Upgrade ISP routers

These purchases are in materials and services, not capital outlay.

Contingencies, Transfers, Unappropriated:

Contingency:

- Total contingency is \$8,337,763

Unappropriated Ending Fund Balance:

- Budgeted only in the Operating Fund
- Total ending fund balance is \$2,835,285

MESD policy is to budget about three months of salary and benefits in reserve.

- Overall, personnel services – employee salaries and benefits – are budgeted at \$33,127,526
- Assuming personnel costs are distributed equally throughout the year, three months of personnel services is \$8,281,881
- Combined contingency and ending fund balance is \$11,673,048, or 141% of policy.

Transfers:

- Balance in all years

The Risk Management Reserve Fund was established to set aside funding for costs associated with risk management activities. In 2011-12, the Board set aside \$450,000 for future PERS rate increases within this fund. This budget includes the final year of funding from that original investment; the remaining 10% balance (\$22,778) is transferred to the Operating Fund.

Debt History:

The District has two areas of outstanding debt:

- Certificate of Participation (original issue amount of \$7,000,000) issued in 1997 and refunded in 2004, to finance the acquisition of land and for constructing, furnishing, equipping and making site improvements for district facilities
- PERS Bonds (\$33,140,000) issued in 2004 to fund the unfunded actuarial liability (UAL) of the district.

Multnomah ESD	6-30-2012	6-30-2013	6-30-2014	6-30-2015 est.
Debt Outstanding	34,891,116	33,780,000	32,655,000	31,355,000

The District has budgeted PERS debt to be paid directly from Personnel Services in each fund and does not separate out the debt payments as debt service.

Highlights of the 2015-16 Budget to be published in TSCC Annual Report:

- The total budget decreased by \$7.4 million, or 8.5%.
- The Operating Fund decreased by 8.5%, from \$9.7 million to \$8.8 million.
- The expenditure budget reflects two adjustments to the current services provided by MESD: closure of Alpha High School due to less need for services from Gresham-Barlow School District and anticipated legislation requiring full day kindergarten
- This budget shows a net decrease of 12.6 FTE primarily due to a reduction in special education services and partially offset by an increase in instructional services.

Local Budget Law Compliance:

The 2015-16 Budget is in substantial compliance with local budget law.

The audit report notes the following issue of noncompliance for the year ending June 30, 2014:

Governing bodies may adopt a supplemental budget at a regular meeting providing that the supplemental budget is published not less than five days prior to the meeting. The District's Supplemental Budget Resolution 14-027 was published only four days prior to the meeting at which it was adopted.

Certification Letter Recommendations and Objections:

The 2015-16 Budget, filed April 15, 2015, is hereby certified by a majority vote of the Commission with one recommendation. Estimates were judged to be reasonable for the purpose shown and the document was found to be in substantial compliance.

Recommendation

The audit report notes the following issue of noncompliance for the year ending June 30, 2014:

Governing bodies may adopt a supplemental budget at a regular meeting providing that the supplemental budget is published not less than five days prior to the meeting.

The District's Supplemental Budget Resolution 14-027 was published only four days prior to the meeting at which it was adopted.

The 2013-14 budget was in substantial compliance with local budget law, with the exception of publishing requirements for a supplemental budget. ORS 294.471(3)(b) provides that notification of a regular meeting convened to make a supplemental adjustment to the budget must be published not less than five days before the meeting. The District's Supplemental Budget Resolution 14-027 was published only four days prior to the meeting at which it was discussed and adopted. While this instance of publication is only one day shorter than required, care needs to be taken to ensure that all aspects of local budget law, including public notice statutes, are followed.

Questions:

1. The ESD has experienced significant legislative changes over the last few years. Component districts are now allowed to opt-out, full day kindergarten has been mandated, ESD funding has been reduced to 4.5% of the k-12 funding, and the district now has a customer-based budget committee. How have these changes impacted the District and its budget?
2. The Multnomah ESD is also subject to changes in PERS laws. How does the recent Oregon Supreme Court ruling on the PERS reforms impact the district?
3. What is Multnomah ESD's role in state education improvements? How is that work reflected in this budget?
4. One of the continual threads in the ESD's mission is regional service and partnerships. Tell us about the regional partnerships Multnomah ESD participates in, outside of the classroom.

5. The East Metro Mathematics Leadership Project – of which MESD is a part – recently received a \$1 million grant to help with math instruction aimed towards reaching the Common Core Standards. Please give us a brief summary of the East Metro Mathematics Leadership Project and how the work this project team is pursuing will benefit students?

6. The budget reflects the closure of Alpha High School due to decreased need from the Gresham-Barlow School District. What are your plans for the facility? How does this closure impact the level of service provided by the MESD?

7. How will the debt associated with the construction of that school be funded without revenue generating programs in the building?

8. Just like every other government body, Multnomah ESD has to deal with public perceptions and misinformation. How does this budget attempt to address that issue?

9. Oregon's ESDs have existed in one form or another since 1847, evolving in response to changes in education practices and funding. What does the future hold for Oregon ESDs? What trends is Multnomah ESD considering as it looks to future budgets?