

**Multnomah ESD Board of Directors'  
Budget Committee Meeting  
Tuesday, March 16, 2010**

**2009-2011**

**Agency Goals**

- #1 – Reconnecting Youth**
- #2 – Districts Service Plans**
- #3 – Professional Development**
- #4 – Facilities**
- #5 – Fiscal Stability**
- #6 – Board Policy**
- #7 – Legislative Advocacy**

**1. CALL TO ORDER AND ROLL CALL**

Chair Kevin Spellman called the meeting to order at 6:03 p.m. on Tuesday, March, 16, 2010 in accordance with the agenda and public notice of the meeting.

**Board Members Present:** Harry Ainsworth **(Arrived at 6:17 p.m.)**  
Mike Delman **(Arrived at 6:15 p.m.)**  
Bernie Giusto **(Arrived at 6:57 p.m.)**  
Jean Haliski  
Sean Schafer  
Kevin Spellman, Chair  
Geri Washington, Vice Chair

**Board Members absent:**

**Administrative Staff present:** Ron Hitchcock, Superintendent  
Barbara Jorgensen, Chief Program Officer  
Leslie D. Nelson, Board Secretary

**2. MESD BOARD BUSINESS**

**A. Board Motion BM02-10 – Election of Budget Committee Chair (Goal #6)**

Chair Spellman opened the nominations for election of the Board Budget Committee Chair.

**Motion:** **Director Haliski moved that Director Spellman be appointed Budget Committee Chair. Director Washington seconded the motion.**

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**BOARD MOTION BM-02-10 – Election of Budget Committee Chair**

This Board Motion seeks election of a Budget Committee Chair.

**Background:** Board Policy DB – MESD Budget authorizes the Multnomah Education Service District Board of Directors to prepare and adopt a budget for its own expenses and for its operational, administrative and Local Service Plan expenses. Further Board Policy DB designates the Multnomah Education Service District Board of Directors to act as the Budget Committee.

**WHEREAS,** Board Policy DB – MESD Budget authorizes the Board to prepare and adopt a budget; and

**WHEREAS,** Board Policy DB – MESD Budget designates the Board as the Budget Committee; and

**WHEREAS,** the Board deems it appropriate to elect a Budget Committee Chair.

**NOW THEREFORE BE IT RESOLVED,** that the Multnomah Education Service District Board of Directors elects Board Director Spellman as the Budget Committee Chair.

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**Action:** The motion carried with Directors Haliski, Schafer, Spellman and Washington voting aye. Motion passed 4-0.

**3. BUDGET COMMITTEE MEETING**

**A. Delivery of Budget Message (Goal #2)**

The 2010-2011 Fiscal Year Proposed Budget was distributed to the Board and the public. The proposed budget can be viewed in its entirety at:  
[http://www.mesd.k12.or.us/bus/budget/201011/2010-11\\_BudgetMessage.pdf](http://www.mesd.k12.or.us/bus/budget/201011/2010-11_BudgetMessage.pdf)

Superintendent Hitchcock delivered the Budget Message:

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**MULTNOMAH EDUCATION SERVICE DISTRICT  
SUPERINTENDENT'S BUDGET MESSAGE  
March 16, 2010**

This proposed budget will buy stability. It stabilizes the areas which are most important to the mission of MESD -- supporting the school districts, children and families of our communities. Fiscal stability is problematic in most Oregon education systems; we should not overlook or minimize our accomplishment.

What have not been cut in this proposal are services to children and families, MESD staffing levels, or resolution funds available to our districts. The redesign of our resolution and contract services models last year achieved the goal of stabilizing the purchasing power of districts, maintaining our program capacities to serve children, and keeping the MESD workforce intact.

The financial policies in this proposal also add stability for MESD infrastructure through the next biennium. Monies have been set aside which will have a leveling effect on our insurance, retirement and facilities costs.

We have almost eliminated the cost of outside contractors and systems. We have virtually eliminated the use of outside contractors to support our business, technology, contracting, purchasing and legal services, choosing instead to provide services from within or do without.

Several key indicators show the trends for MESD, and illustrate the efficacy of the financial policies between our current and proposed budget:

- Revenues are decreased by more than \$1 million, and will likely continue to fall
- Expenditures are decreased by three times the amount of revenue decrease
- Fund balances continue to allow deficit spending, but its use has been sharply decreased
- Resolution service funds (local sources) available to districts increased
- Overall staff levels and work schedules remain virtually level

Other key indicators are notable by their absence or by comparison to previous budgets:

- Expenditures for operations have been reduced by more than \$1 million
- We have only been able to modestly increase wages and salaries
- We're not able to fund startup costs for some new initiatives, no matter how promising
- We've eliminated the cost of web-based purchasing and contract management
- Indirect costs are stripped from resolution services and reduced in contract services

While not legal mandates, key MESD financial policies supported by this proposal are:

- Continue to move toward sustainability of the 90/10 split between direct/indirect costs
- Invest in the replacement and maintenance of MESD-owned buildings and contents
- Identified deadlines to reduce our lease expenses by moving out of three facilities
- Set aside monies to mitigate the impact of increasing employer contributions to PERS
- Create a new reserve fund to mitigate the impact of employer costs for insurance

At the transaction level detail this budget is as complex as it has ever been. At the fund level this budget is as clear and concise as any education budget in Oregon. While we have added a new fund, our total of seven funds is as minimal as possible.

We only have three funds which receive revenues. Those revenues and the expenditures associated with them are clearly separated. Resolution Services, Fund 1, accounts for local revenues, which are dedicated for use by our component districts. Contract Services, Fund 2, accounts for revenues generated by contracts from local, state and federal sources. Expenditures within this fund are often on a reimbursement basis and are always controlled by the language in the contracts. Operations, Fund 6, accounts for revenues generated by operations departments and transfers of revenue from Funds 1 and 2. Beginning with the 2009-2010 budget, Fund 6 became our general fund. Sources from Fund 6 are transferred to our other non-revenue-generating funds for specific Board approved purposes.

There are seven funds in the proposed 2010-2011 MESD Budget. Risk Management and PERS Reserve, Fund 7, is a new fund. Following is a brief outline of all funds:

**Resolution Services, Fund 1:**

Revenue in this fund is local revenue as defined by statute, including State School Support Funds and property taxes. These dollars are the basis for providing Resolution Services to our component districts under resolution authority. Resolution authority is defined by statute and requires approval of services by two-thirds of component districts representing a majority of students. Any unexpended funds are carried over for the use of local districts.

**Contracted Services, Fund 2:**

Grant and contract revenue from local, state and federal sources is accounted for in this fund. The majority of these monies come from the Oregon Department of Education (ODE) through grant-in-aid programs. All fund activities are essentially fee-for-service agreements to provide services to component districts and other agencies. Any unexpended funds are carried over but remain in this fund.

**Debt Service, Fund 3:**

This fund accounts for long-term debt. PERS unfunded actuarial liability (UAL) and Certificates of Participation (COP) used to finance construction of Alpha and Arata Creek schools are the only debts. Dollars in this account are transferred from Funds 1, 2 and 6.

**Facilities Acquisition and Improvement, Fund 4:**

This fund provides resources for facility acquisition, improvement and maintenance. Revenue is transferred from Fund 6. Unexpended funds are carried over, but remain in the fund to be available for future renovation projects.

**Agency Pass-Through, Fund 5:**

This fund tracks monies for which MESD serves as the fiscal agent. MESD does not contribute to or use these funds. Sample activities are reimbursements through Senate Bill 1149 (energy efficiency initiative) and E-Rate (connectivity discounts for education).

**Operating, Fund 6:**

A portion of revenue in Funds 1 and 2 is transferred to this fund. It supports MESD operations, including Board, Business, Legal, Administration, Technology, Facilities, Communication and Human Resources. Unexpended and funds are unrestricted.

**Risk Management and PERS Reserve (new fund), Fund 7:**

The purpose of this fund is to pay for costs associated with Risk Management activities and PERS costs, including payment of insurance premiums, activities to prevent or minimize exposure or liability and payment for incurred losses. Administration of the fund is assigned to the MESD Risk Management Oversight Committee.

I believe this proposal is an accurate depiction of the budget. I believe it is the most reasonable projection of our fiscal sources and uses. I believe it implements the desires of the Board and utilizes fiscally responsible financial policy.

The budget document and projections are a testament to the diligent efforts of our staff, Cabinet and Board. They worked tirelessly and dedicated an extraordinary amount of time to develop the philosophies supported by this document and the reports it contains.

We have every reason to assume that MESD and the ESD structure in Oregon will look very different after our next legislative session, and we acknowledge that uncertainty. However, the budget for this year and the proposal for next year, and for the 2011-2013 biennium give us as much certainty as possible. We have three simple endeavors, to collectively be able to:

- Understand and accurately project our revenues and expenditures
- Manage our fund balance in the most sensible and sustainable manner
- Fiscally support the highest priorities within our mission and agency

Upon receipt of this proposal, and after receiving public input, the MESD Board, acting as the MESD Budget Committee will approve the document as submitted or revised.

I respectfully submit this proposed budget as a means to those ends.

Ron Hitchcock, MESD Budget Officer  
March 16, 2010

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**Discussion:**

- Director Washington:
  - Appreciation for the efforts to maintain overall staff levels and work schedules level
  - Recognition to both Business Services and Human Resource Services for their work together to make this happen with reallocation of staff between their two departments
  - Reminder that the Board's goal, when considering cutting any program, that it is more costly to re-start a program from ground up once it has been eliminated, and asked that the Board keep that in their discussions
- Committee Chair Spellman :
  - Underlying message of stability given the fact that our operation expenses are trimmed down is to be appreciated
  - Ability to crop the budget to give stability to the agency is impressive
  - Will continue to be a challenge
  - Is a good basis of a solid budget
- Director Ainsworth:
  - Would like to see the Board have input into the budget before it is put together.
  - Requests: an opportunity to discuss issues that have not been addressed
    - (1) Draft Budget comes to Board before Budget Committee in the future
    - (2) Opportunity to have philosophical discussion before approving document
    - (3) Uncomfortable with the feeling the Board has no input
- Superintendent Hitchcock:
  - Explained ORS Business Law and MESD Board Policies relative to the Board setting revenue and expenditures at a fund level
  - Due to the lengthy process to create budget, the Board would need to start their discussions earlier than March of each year
  - Current process for budget development and approval begins with
    - (1) Adoption of Budget Calendar. This took place on July 1, 2009 for preparation of the 2010-2011 Budget
    - (2) We are required by law to adopt a budget by June 30. The 2009-2010 Budget was approved in June of 2009
    - (3) Once the Budget Committee has approved receipt of the proposed budget, there is a span of two months before we hold a TSCC hearing scheduled in May. TSCC requires 30 days to review the budget prior to the May meeting.
  - As many work sessions can be scheduled as necessary, as long as we meet the legal calendar deadlines
  - Three sessions were scheduled for the 2009-2010 budgeting process for the Board and four sessions were scheduled for the 2010-2011 budgeting process.

- Nothing in state law precludes during the budget process or fiscal cycle the Board reopening the process and making changes by Board action.
- Last year we came back one month after final approval of our budget in July 2009 to amend the budget
- Committee Chair Spellman:
  - The Board can approve the document received and it can be changed after that approval. This is a starting place.
  - If the Board wishes to change the calendar for the future, we can have that discussion at the August Board Retreat.
- Director Delman asked if we were locked into the May schedule for TSCC. Cabinet Director Sesnon replied, yes. The adopted budget calendar has been included in the back of the proposed budget document.
- Director Haliski:
  - Pleased with the budget as it is presented
  - We are meeting our obligations in all of our financial areas of this budget
  - Requests a more detailed breakdown of funds as she feels she has a responsibility to the public
- Committee Chair Spellman asked Cabinet Director Sesnon if the iFAS drilldown application will be available for next year.
- Cabinet Director Sesnon responded that it is available currently. Not all items are drilldown items. Underneath the current budget as proposed are over 3,000 line items.

## **B. Review of the Proposed 2010-2011 Budget Document (Goal #2)**

Cabinet Director Sesnon gave a brief overview of the structure of the proposed budget for discussion. The 2010-2011 Fiscal Year Proposed Budget can be viewed in its entirety at: [http://www.mesd.k12.or.us/bus/budget/201011/2010-11\\_Proposed\\_Budget\\_Web.pdf](http://www.mesd.k12.or.us/bus/budget/201011/2010-11_Proposed_Budget_Web.pdf)

- Pages 13 and 14 reflect the Combining Fund Summary for All Funds
- All numbers in the supporting reports will always feed up to pages 13 and 14.
- The comparisons are current year actuals to the revised budget that the Board approved in July of 2009
- The Projected Actual is shared with you each month in the Fiscal Report
- Each Fund begins with the combined figures and then breaks those funds to the level of revenue, expenditures and transfers

### **Discussion:**

**Question:** What is the source of the 8% transfer to Operations from Resolution?

**Answer:** Cabinet Director Sesnon confirmed that this is the overhead from contract services. The next column, Operations is revenues. The Facilities Fund Balance reflects the recommendation from the Facilities Ad Hoc Committee, transferring those funds out of Operations.

**Question:** Where did the \$838,000 amount in Facilities come from?  
**Answer:** \$32,000 from the current year that will go forward into the 2010-2011 budget, comprised of Technology Services set aside and the rest is the remaining balance in Facilities. The remaining amount was the Board Facilities Ad Hoc Committee recommendation that the Board approved.

**Question:** In Transfers In and Overhead Revenues, Operating Fund on page 13, is this the amount we came up with for the PERS reserve, and did you do a five year smoothing as requested by the Board?  
**Answer:** Yes. Page 91, under Operating, Risk Management Reserve reflects the Boards request for a tiered approach.

**Question:** A number of conversations were held on the fund balance being excessive and our spending it down. I don't see the fund balance being reduced much. Where is that reflected in the budget?  
**Answer:** The Operating Fund reflects a beginning fund balance for the 2009-10 budget of \$8,919,500. The Beginning Fund balance for 2010-2011 is \$6,317,211, a reduction of \$2,602,289. These are the only dollars that we have flexibility. The amount in the Resolution Fund is committed to providing services to our component districts.

Superintendent Hitchcock reminded the Board that in the proposed minimum Fund balance are funds to cover two months of payroll (approximately \$3.8m) which actually sets our ending Fund balance at \$3.6m.

**Question:** So we actually ended up with twice our minimum?  
**Answer:** There is little flexibility here. We are not spending down our Fund Balance to our last dollar. You will be spending this down this year and probably the same next year.

**C. Public Comment on Budget – None**

No public testimony was received.

**D. Approve Resolution 10-10 – Approve Receipt and Approval of the Proposed 2010-2011 Budget Document and Ad Valorem Property Tax Rate (Goals #2)**

An amended Resolution 10-10 from what was originally posted in the agenda for review was distributed to the Board and public.



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**RESOLUTION 10-10 (Amended) Approve Receipt and Approval of the Proposed 2010-2011 Budget Document and Ad Valorem Property Tax Rate**

This resolution requests the Board Budget Committee's acknowledgement of receipt and approval of the 2010-2011 Proposed Budget Document and the Ad Valorem Property Tax Rate.

**Background:** The Budget Officer is required by law to prepare a budget to submit to the Board Budget Committee. The Board Budget Committee should acknowledge receipt of that Proposed Budget and then is faced with two choices. The Board Budget Committee can either approve the budget as submitted by the Budget Officer or approve a budget as modified by the Board Budget Committee. Secondly the Board Budget Committee is required to approve the Ad Valorem Property Tax Rate.

The Superintendent recommends adoption of the following resolution:

**WHEREAS**, the Budget Officer is required to prepare a Proposed Budget and present it to the Board Budget Committee; and

**WHEREAS**, the Board Budget Committee has received and reviewed the 2010-2011 Proposed Budget Document.

**NOW THEREFORE BE IT RESOLVED**, that the Board Budget Committee approves the 2010-2011 Proposed Budget in the following amounts:

FUND	AMOUNT
Fund 1 - Resolution Services	\$ 34,233,120
Fund 2 - Contracted Services	\$ 37,908,468
Fund 3 - Debt Services	\$ 547,830
Fund 4 - Facilities Acquisition & Improvements	\$ 1,441,647
Fund 5 – Agency Pass-Through	\$ 18,000
Fund 6 – Operating	\$ 16,642,565
Fund 7 – Risk Management	\$ 855,494
<b>TOTAL</b>	<b>\$91,647,124</b>

**BE IT FURTHER RESOLVED**, that the Board Budget Committee approves the levy of the Ad Valorem Tax Rate of \$.4576 per \$1,000 of assessed value for the General Fund.

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**Motion:** Director Washington moved that Resolution 10-10 be approved as amended. Director Schafer seconded the motion.

**Discussion:**

**Question:** What does it mean to approve the proposed budget?

**Answer:** It is an Oregon Budget Law. You are required to receive and approve the proposed budget. Once you have gone through that process, the budget is then brought to the Board again for approval and finally for adoption. The receipt and approval of the Proposed Budget tonight is just step two in the process.

**Question:** Will there be opportunities to meet as a board to discuss items that are in the budget that we have not had a chance to discuss?

**Answer:** Yes. The role of the Board, by MESD Policy, is to receive and amend expenditure and revenue by fund, delegating the budget making process to the Superintendent and designees.

**Question:** If I have specific questions about a department and eliminating it from the budget, in this case the Legal Department, and we have a discussion about that, are you saying that there is nothing I can do?

**Answer:** You have to evaluate the motion in existing policy. Our current policy says that the Board approves the budget on at the Fund Level. Departments are at a lower level. A typical recommendation from the Board would say, recommend reducing Fund "X" by "X" amount, similar to what happened in three of our component district meetings last night. The Superintendent then is required to take the recommendation and prepare another proposed spending plan to be brought to the Board for consideration.

**Question:** When would that have to take place?

**Answer:** That can happen when the Board wants it to.

**Question:** Can we amend what is given to TSCC?

**Answer:** Yes, the Board can amend the budget at anytime through Board action. The amendment would be to reduce or expand the fund balance that alters the expenditure number. It would not be to amend at a detail level lower than that. By Board Policy the expectation of the Superintendent is to administer the budget as set by Fund.

**Question:** That doesn't exclude the Board from dipping lower, only that the Superintendent is bound to do what the Board says.

**Answer:** Board Policy DBF says the Board set the standards. Managing the FTE within a department or program is not the role of the Board. If the Board wants to have the ability to eliminate a department, it has to be in concert with the Board policy. We can have that discussion. With regard to the current issue of eliminating a specific department, that only has 2.0 FTE in it, you are close to making a personnel decision.

**Question:** If I were to vote to approve, one would be to amend it. What are some other alternatives?

**Answer:** The Board can schedule a meeting, post the notice meeting all of the legal requirements and state the item you are going to deliberate on.

- Director Delman suggested that possibly it could be not to eliminate legal services but to contract it out, another way other than FTE.
- Director Delman expressed his displeasure of how the budget sessions were “ram-rodded” in his opinion through when Director Giusto could not attend and would like to schedule another budget meeting so that his (Giusto’s) opinion can be received.
- Committee Chair Spellman expressed his dislike of the term “ram-rodded” when in fact these dates had been set last July. It is understandable that some could not attend for a part of it. He further stated that he felt it unfortunate that the Board is expecting to delve into lower levels of detail and wondered where it would stop. He believes it is the Boards responsibility to give the Superintendent their opinion and some of the functions of the agency where the functions are appropriate. In his personal view an operating budget that is clearly on a declining trajectory, maintains this elusive stability is entirely appropriate. If the Board were to accept this budget today, it is not the last time that the Board can discuss the efficacy or performance of departments or amend the budget.
- Director Washington reiterated that she was impressed with the number of opportunities to come together as a Board to have these conversations. She expressed her frustration with scheduling meetings and not having 100% attendance and that if another meeting is scheduled that she would urge individuals make every effort to be there.
- Director Giusto feels that the budget belongs directly to the Board and that there is never enough time to discuss details. He believes a conversation on the level of detail has not happened. He believes there is a policy problem.
- Director Ainsworth felt that the budget sessions held were for understanding the funds and how they are set up, more like seminars instead of where conversations could be held and that he felt when he asked if this was the time he was always told no. He does not believe the Board has had input into how the funds are allocated and what the priorities of the Agency are.

- Committee Chair Spellman took exception to the issue that the Board has never discussed the issues. He reminded the Board that there were concerns expressed last year about two departments and since that time the Board has participated in those department reviews where those conversations could have happened. He reiterated once again, if the Board were to accept the proposed budget and move forward, the Board could amend the budget or terms of the function so the agency and that this is not a “ramrod”, it is an exercise in moving the process forward and that is the extent of it. If someone wanted to cut this budget in half, the Superintendent would refigure the expenditures and bring it back to us.
- Director Schafer believes that the concerns expressed need to be worked through and it looks like the only option to Director Ainsworth’s recommendation to eliminate a complete department is to reduce the Operation budget by \$250,000.
- Director Ainsworth wants to have an influence for this agency as he believes it is part of his job to have input and why he was elected. He further stated that he would vote to approve the proposed budget if he were assured that conversations to amend the budget would happen. He believes there are two forms of policy one with a capital “P” (rules, regulations, laws) and one with a lower case “p” (where philosophical discussions take place, and where policy level decisions are not bound by the capital “P” type Policies. As an example, we have a policy on settlements, but that doesn’t mean we can’t have discussions about adjusting settlements. The program review was not an appropriate time to have that discussion. That was an informational gathering. We asked for information and not all of that information came back to all of us.

It was agreed that there was a philosophical difference on the interpretation of the Oregon Budget Law and the MESD Policies regarding Budget roles and responsibilities.

**Action:** Directors Washington and Spellman voted aye and Directors Ainsworth, Delman, Giusto, Haliski, and Schafer voting nay. Motion did not passed 2-5.

**Motion:** Director Ainsworth moved to approve the Ad Valorem Property Tax Rate of \$.4576 per \$1,000 of assessed value for the General Fund. Director Delman seconded the motion

**Discussion:**

**Question:** Once we hold the meeting to make changes, will this change the Ad Valorem Tax Rate?

**Answer:** No, it has not affect.

**Action:** The motion passed with Directors Ainsworth, Delman, Giusto, Haliski, Schafer, Spellman and Washington voting aye. Motion passed 7-0.:

The Board set the date of Friday, April 2, 2010 at 5:30 p.m. to hold a Budget Committee Meeting.

#### **4. ADJOURNMENT**

There being no further business the meeting was adjourned at 7:32 p.m.

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Ron Hitchcock, Superintendent  
RH/ldn