

# TSCC Budget Review 2017-18

## Portland Public School District 1J

### 1. Introduction to the District

Portland Public School (PPS) District is the largest school district in the state. It serves a population of 685,000. Most of the district's 152 square miles is within the City of Portland, but the district does extend into portions of unincorporated Multnomah County, as well as Clackamas and Washington counties.

The district is governed by a seven member board of directors, elected by zones. Three new board members were elected in May. The new members will join the board on July 1. Board members serve without compensation.

The District is without a permanent superintendent following an unsuccessful recruitment earlier this year. The new board will initiate a new recruitment.

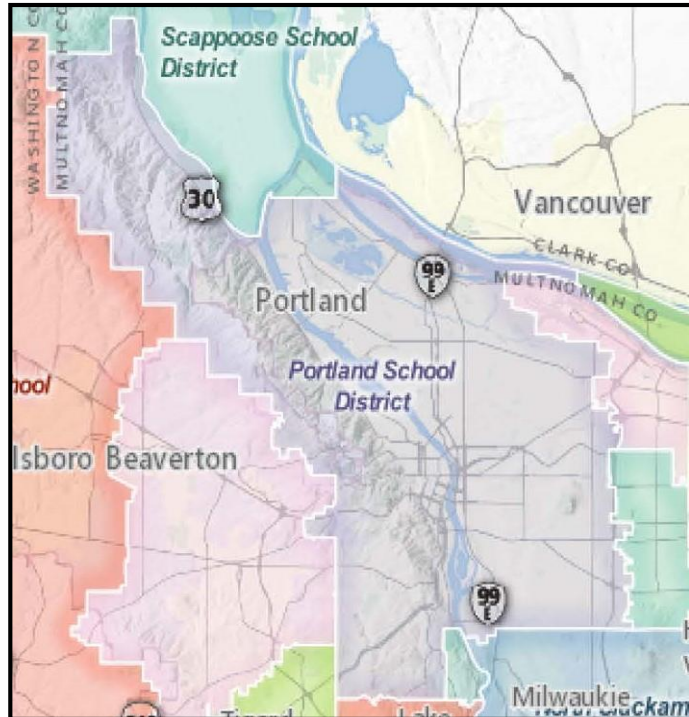


Figure 1: Portland Public Schools Boundaries

The district served 49,189 students as of October, 2016. Projected enrollment for 2017-18 is 46,012. The Approved Budget includes 5,737 Full Time Equivalent Positions.

### 2. History

In May 1856, after multiple attempts to move its schools from rented to permanent space, Portland School District #1 voted to build a school in the block currently occupied by Pioneer Square. The Central School, as it became known, cost \$4,000 to build and opened for classes in 1858<sup>1</sup>. This school was the first permanent home for the district.

In April of 1869, the district expanded to include a high school. It resided in various buildings until September 9, 1885, when classes started in a new

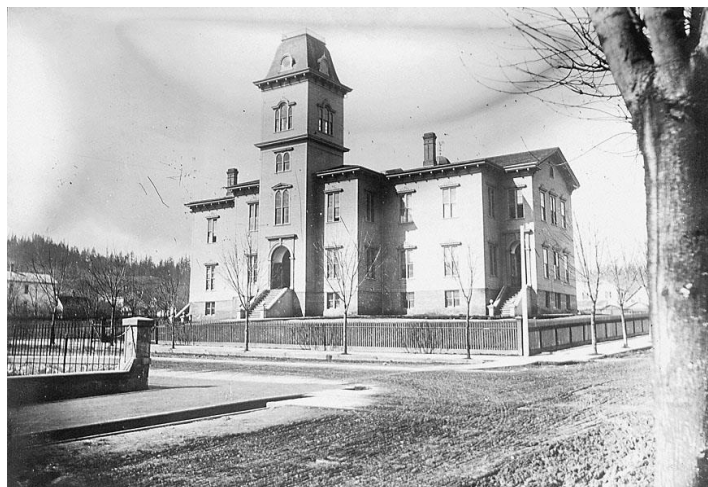


Figure 2: Central School, circa 1858, 6th and Morrison

<sup>1</sup> <http://portland.daveknows.org/2011/05/17/may-17-1858-portlands-central-school-opens/>

building constructed on the block bounded by Alder, Twelfth, Morrison and Lowndale streets. The school cost \$128,300<sup>2</sup> to build.

The district has grown since then to include over 100 facilities. Enrollment peaked at about 81,000 students in the early 1960's. The district built over 50 schools in the 30 years following WWII, correlating with the baby boom.

The average district school is about 70 years old. Recognizing the aging facilities, the district undertook a facilities modernization planning process in the early 2000's. This culminated in a \$482 million general obligation bond measure that passed on its second attempt in November 2012. Proceeds from the bonds are being used to renovate 4 schools and do major capital improvements and repairs. At the May election this year district voters approved a second bond measure for \$790 million, again to renovate or replace four schools and do major environmental health and safety projects.

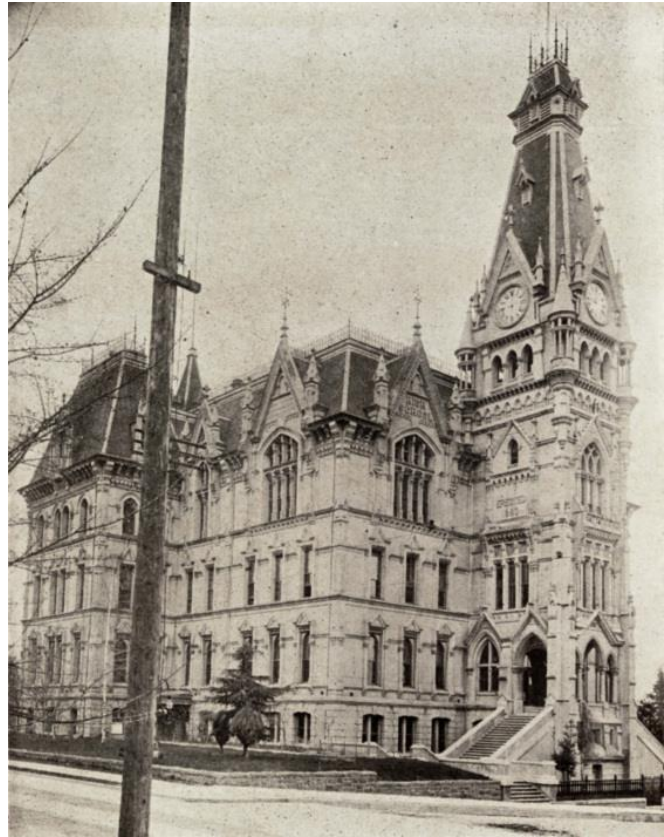


Figure 3: Portland High School, 1904 (City of Portland Archives)

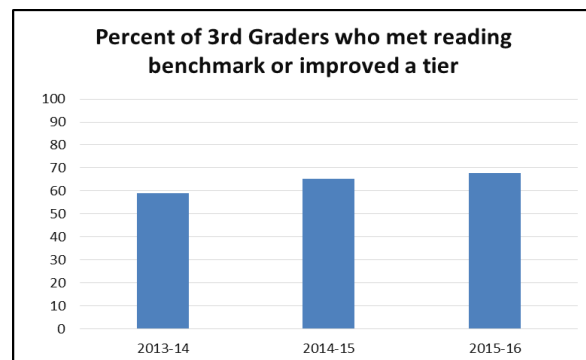
### 3. Strategic Plan / Performance Objectives

Last year at this time, the district presented a list of seven priorities. For 2017-18 those priorities have been consolidated into three primary priorities.

- Reading: All students reading to learn by the end of third grade.
- Discipline: Reduce disproportionate exclusionary discipline for students of color.
- Graduation: Increase the graduation and completion rates.

#### Reading

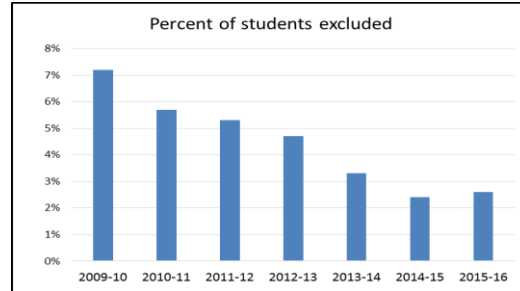
The percentage of third graders reaching the district's reading benchmarks improved from 58.9% in 2013-14 to 67.7% in 2015-16. The district invests significant resources in equity efforts and that may have impacted Native American readers' improvement from 35% to 50% over the same period. That was the most significant increase of all ethnic groups



<sup>2</sup> Historical Sketch of the Public Schools of Portland, Oregon 1847-1888 (pdf)

Discipline

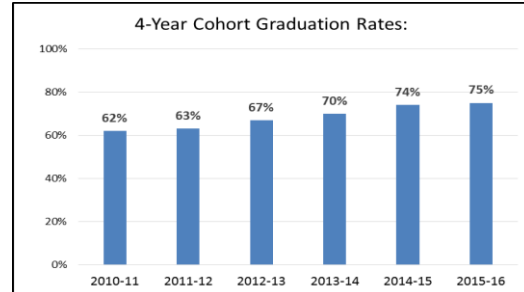
The overall percentage of students excluded has dropped from 7.2% to 2.6% over seven years, with black students registering the largest percentage decreases: from a high of 18% in 2009-10 to a low of 7% in 2015-16.



Graduation Rate

The District’s graduation rate has increased from 62% (2010-11) to 75.5% (2015-16), surpassing the state average in 15-16 for the first time this decade.

This data comes from the district’s 2017-18 proposed budget and the “Equity Update” report presented to the PPS board at its April 25, 2017 [meeting](#).



**4. The Budget in Total**

The 2017-18 budget is \$1.587 billion, \$425 million (37%) higher than the current year budget. But that fact belies the reality that the District is cutting its budget this year to stay within the assumed state school funding level. 79 positions are being eliminated. The District has also found about \$20 million in savings this spring, and these savings are reallocated to maintain positions that were scheduled to be eliminated in the Proposed Budget. The operating budget is stable: the large increase in the budget is due solely to the infusion of bond funding for school modernizations.

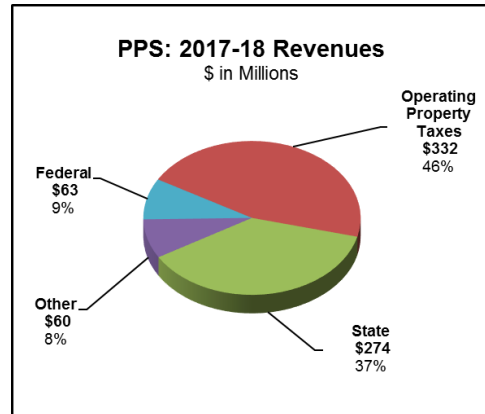
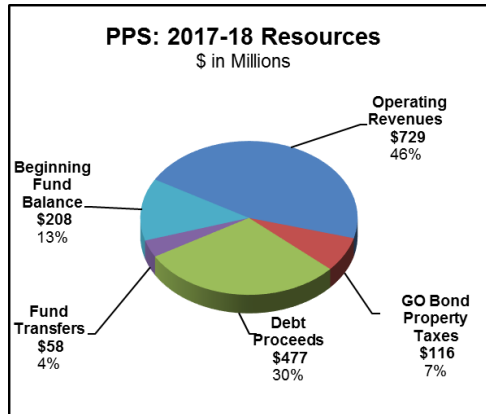
PPS: Four Year Budget Trend				
\$ in Millions				
	2014-15	2015-16	2016-17	2017-18
	Actual	Actual	Rev. Bud	Budget
Operating Budget	\$ 674	\$ 697	\$ 830	\$ 845
GO Bond Capital Projects	43	120	254	601
Debt Service	45	47	49	116
Ending Fund Balance	457	348	29	26
	\$ 1,218	\$ 1,212	\$ 1,161	\$ 1,588

The net operating budget (Personnel Services and Materials and Services) is virtually level: it increases from \$764 million to \$765 million. Materials and Services costs were reduced to maintain staffing.

Resources

District resources are based on an assumed \$8.1 billion state allocation to school districts for 2017-18. Under that plan, the District’s state revenue would increase by 13%. The district is assuming a 3% increase in property tax revenue and no change in federal funding or other revenues.

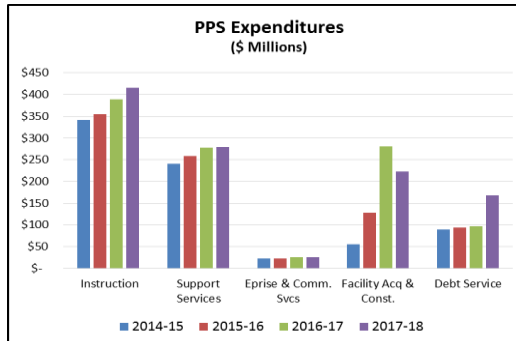
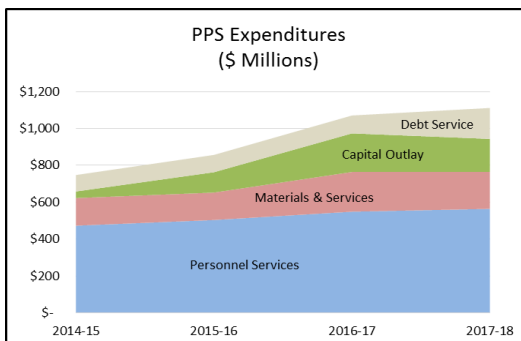
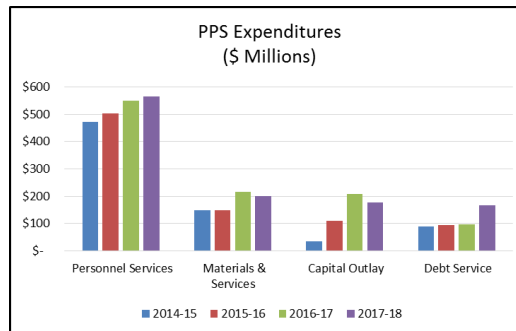
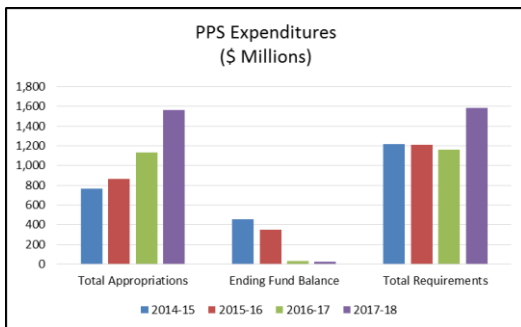
Beginning Fund balance is budgeted to decrease by \$142 million (40%) to \$208 million. This is due to the Capital Project Fund where the funds are being used for planned projects.



### Requirements

The following charts summarize the district's overall spending and budgeting for the last four years.

	2014-15 Actual	2015-16 Actual	2016-17 Rev. Bud	2017-18 Budget
Personnel Services	\$ 473	\$ 504	\$ 549	\$ 566
Materials & Services	150	149	215	202
Capital Outlay	36	110	209	178
Debt Service	89	94	97	168
<b>Subtotal Expenditures</b>	<b>\$ 747</b>	<b>\$ 856</b>	<b>\$ 1,070</b>	<b>\$ 1,113</b>
Fund Transfers	14	7	16	7
Ending Fund Bal/Contingencies	457	348	75	467
<b>Total Requirements</b>	<b>\$ 1,218</b>	<b>\$ 1,212</b>	<b>\$ 1,161</b>	<b>\$ 1,588</b>



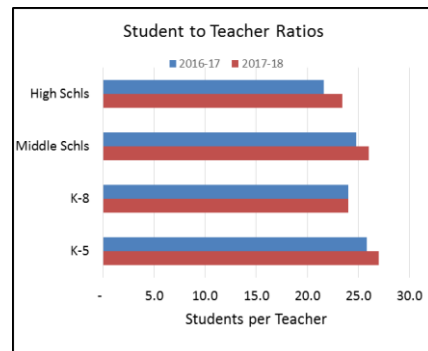
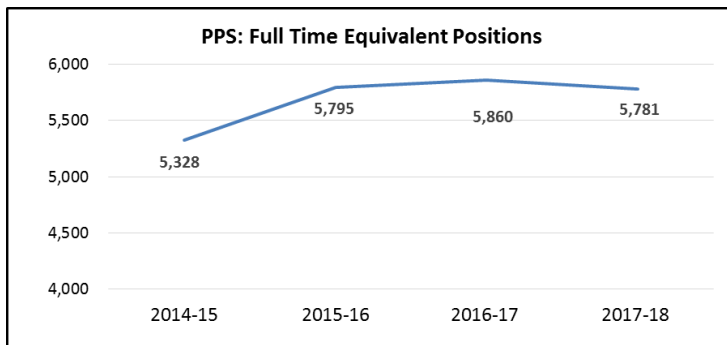
Portland Public Schools Total Requirements By Function - All Funds Combined (\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Rev. Bud	2017-18 Budget
Instruction	\$ 342	\$ 354	\$ 389	\$ 409
Support Services	240	259	277	288
Eprise & Comm. Svcs	22	22	26	25
Facility Acq & Const.	55	127	280	223
Debt Service	89	94	97	168
Fund Transfers	14	7	16	7
Cont/Fund Bal	457	348	75	467
<b>Total Requirements</b>	<b>\$ 1,218</b>	<b>\$ 1,212</b>	<b>\$ 1,161</b>	<b>\$ 1,588</b>

### Staffing and Personal Services Costs

Personnel Services cost are increasing from \$549 million to \$566 million in 2017-18. This is an increase of \$17 million, 3.1%. The average Personnel Services cost per employee is \$97,860.

Portland Public Schools Personnel Costs				
	2014-15 Actual	2015-16 Actual	2016-17 Rev. Bud	2017-18 Budget
Personnel Services	\$ 472,818,520	\$ 503,766,364	\$ 548,714,167	\$ 565,729,972
Full Time Equiv Positions	5,328	5,795	5,860	5,781
Cost per FTE	\$ 88,742	\$ 86,931	\$ 93,637	\$ 97,860
Annual Change		-2%	8%	5%

As stated above, the district is reducing staffing by 79 positions in the 2017-18 budget: 71 teaching positions and 8 Central Services positions. Student to teacher ratios are increasing slightly (see the chart below). The District is also reallocating 50 FTE from Central Services to school support, custodial and maintenance, curriculum, and literacy functions.



The staffing reductions saved about \$8 million. The District avoided more severe cuts (including many of the support positions added last year, e.g. media specialists) by recognizing the following revenue increases and expenditure decreases.

- Multnomah ESD revenue increase (transit \$) \$1.0 million
- Health Insurance trust cost decrease \$4.8 million
- Benefits savings and other cost decreases \$1.8 million

Custodial and Maintenance Functions

Facility custodial and maintenance functions received a new focus in the District following the disclosure of lead in most of the District’s drinking fountains in the spring of 2016. Following the disclosure the District performed an extensive audit of environmental health and safety exposures and identified the extent of the problems and estimated costs of remediation. The results were summarized and presented to the Board in February.

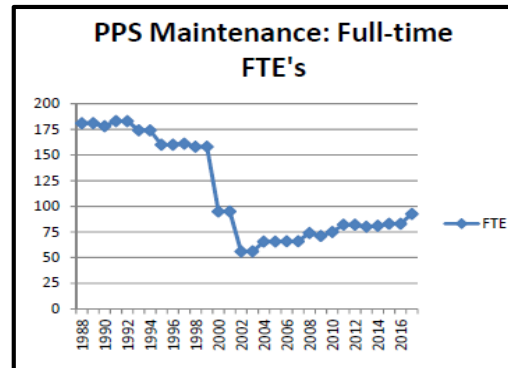
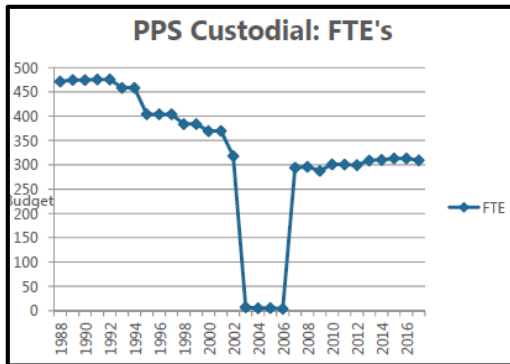
<b>EHS Capital Planning Program Cost Analysis</b>			
Summary of Program Costs 2017-2023			
Project Area	Project Costs	Possible Number of Schools Funded*	Cost Data Source
Improve building foundations and ventilation to mitigate radon levels	\$ 1,126,125	30	ACC Cost Estimate 11/2016, based on 2016 PPS Risk Management Database.
Repair unsafe auditorium stages	\$ 6,177,133	37	Auditorium Stage Safety- ACC Cost Estimate 11/2016, based on 2008-13 PPS FAM Inspection Reports and Needs Assessments.
Remove or encapsulate exposed lead paint	\$ 16,623,936	88	PBS Environmental Report and Cost Estimate 12/2016.
Remove or encapsulate exposed asbestos	\$ 21,297,466	88	ACC Cost Estimate 12/2016, based on 2016 PPS Risk Management Database.
Replace old pipes and fixtures to reduce lead and improve water quality	\$ 28,492,000	90	CH2M Report and Cost Estimate 12/2016.
Improve playground safety and accessibility	\$ 37,243,490	73	ACC Cost Estimate 12/2016, based on 2016 Fabion Modernization Playground Costs.
Improve ADA accessibility	\$ 100,680,717	90	ACC Cost Estimate 11/2016, based on 2013 Akrom Moisan Architects ADA Assessment with Cost Estimate.
Updated fire safety alarms and sprinkler system	\$ 131,459,611	84	ACC Cost Estimate 12/2016, based on 2016 PPS FAM Inventory of Existing Conditions.
Strengthen school safety and security	\$ 54,254,027	90	Tried Consulting Cost Estimate 12/2016 and ACC Cost Estimate 11/2016, based on PPS Security Specifications.
Fix leaky and deteriorating roofs, exterior walls, or windows	\$ 311,485,127	90	ACC Cost Estimate 11/2016, based 2014 on PPS FAM Existing Conditions Assessment and 2008-13 Professional Roof Consultants, Inc. Assessments (Roofs) and ACC Cost Estimate 12/2016 based on 2016 PPS FAM Inventory (Building Envelopes).
Make seismic upgrades	\$ 934,959,273	90	ACC Cost Estimate 11/2016, based on 2009 KPFF Consulting Engineers Seismic Assessment and Approximate Cost Data Extrapolated for All Facilities.
<b>Total</b>	<b>\$ 1,643,798,906</b>		

\*Number of sites based on identified need.

This information coincided with the preparation for the May 2017 GO Bond Measure. The Measure included \$150 million to begin addressing this \$1.6 billion to-do list. But the information also generated a review of the District’s facilities maintenance practices. That review began with resurfacing of a 2008 performance audit of the Facilities Operating Environment that found these strengths and weaknesses.

Facilities Maintenance Best Practices at PPS: Strengths and Weaknesses	
Best Practices in place:	Best Practices absent or inadequate:
+ Automated building inventory	- No preventative Maintenance
+ Work order tracking system	- Inadequate capital maintenance funding
+ Utility and energy cost controls	- No maintenance manual of policies and procedures
+ Customer feedback surveys	- Minimal professional development & training
+ Performance measures	- Lack of cost service informations
+ Standard purchase agreements	- Lack of maintenance performance standards

Staff reductions, captured in the following graphs may certainly have played a part in the absent and inadequate findings of the audit.



To counteract the results of deferred maintenance, a total of \$5.3 million in staffing and resources is being reallocated in the 2017-18 budget from the Central Office to custodial and building maintenance functions<sup>3</sup>.

### Capital Outlay

The 2017-18 budget for Capital Outlay is \$178 million. Most of that funding is GO Bond debt proceeds and will be used for school modernizations.

\$14 million of the health and safety remediation work is included in the 2017-18 budget as capital repairs. The cost of the work will be split evenly between sustainable revenues and one-time-only revenues.

Two other sources of capital funding are the Capital Asset Renewal (CAR) Fund and the Construction Excise Tax (CET) Fund.

The CAR Fund uses revenues from property leases and sales for facilities maintenance of the new schools, built with current GO Bond proceeds. This is a dedicated revenue source with the intention of staying on top of facility needs at these new schools.

The CET Fund uses construction excise tax revenue for capital projects and debt service.

Project Category	Amount
Capital Deferred Maintenance	4,795,000
Code Compliance & Safety	1,120,000
Lead Water & Lead Paint	1,660,000
Capacity & DBRAC Changes	2,386,500
Capital Asset Renewal Plan Projects	910,915
Energy Efficiency Projects	1,130,000
Small Deferred Maintenance Work	2,116,259
<b>Total</b>	<b>14,118,674</b>

Capital Repairs / Budget		
1.	General Fund Transfer	\$3.3m
2.	Construction Excise Tax (outside of CAR fund)	\$3.2m
3.	Construction Excise Tax (from CAR fund)	\$0.9m
4.	SB 1149 / Energy Conservation	\$1.1m
5.	Non Tax Supported Financing Proceeds	\$1.7m
6.	Reserves (mostly capital and CET funds)	<u>\$3.9m</u>
7.	Total	14.1m

<sup>3</sup> Proposed Budget message page 4

## 5. Analysis of the General Fund

Portland Public SD 1J (\$ Millions)	2014-15 Actual	2015-16 Actual	2016-17 Rev. Budget	2017-18 Budget
General Fund	\$ 545	\$ 583	\$ 605	\$ 617
General Fund Beginning Balance	\$ 51	\$ 34	\$ 38	\$ 20
General Fund Ending Balance/Contingency	\$ 34	\$ 38	\$ 16	\$ 24

The 2017-18 General Fund budget maintains most of the support positions added last year. It absorbs most of the 124 eliminated positions. In Central Services, 59 positions were cut. Of those 40 were reassigned and only 9 were eliminated.

General Fund Contingency increases from \$15.6 million this year to \$23.5 in 2017-18. Board policy is to reserve 3% of total General Fund expenditures as contingency for emergencies and unforeseen changes. This budget increases the General Fund contingency to 4% of expenditures, up from 2.5% this year.

This spring, on the recommendation of the Community Budget Review Committee, the Board adopted a revised reserves policy with a goal of increasing the reserve to 5% by 2021 and 10% by 2026.

### 5. Analysis of Other Funds:

- **Cafeteria Fund**

This fund provides for the management and operation of school cafeterias and other food service facilities located in the district. The United States Department of Agriculture (USDA) establishes the reimbursement rate for free and reduced price meals, as well as household income guidelines for eligibility. The district sets the price for full price meals.

The program's 2017-18 revenues will be \$2.3 million less than expenses. Fund balance will fall to \$1.7 million, down from a high of \$7.5 million two years ago.

- **Grants Fund**

The district actively pursues federal, state, local and private grants to support projects in a variety of instruction and service areas. All grants complement the district's primary mission to provide a quality education for all students.

- The total fund budget is \$83.5 million, up from \$69.3 million in 2016-17. The District has budgeted a placeholder for the full amount of a Measure 98 (voter approved, but unfunded dropout prevention and college readiness actions) grant, should the legislature fund it.



- **Dedicated Resource Fund**

This fund accounts for revenues from specific sources to be used for specific purposes. The budget fluctuates annually between \$13 and \$19 million as various dedicated revenues change. The 2017-18 budget is \$16.6 million.

## 6. Debt Status

The District received voter approval for a \$794 million General Obligation (GO) Bond in May. The bond proceeds will be used to replace or modernize three high schools (Madison, Lincoln, and Benson) and replace one shuttered middle school (Kellogg). This budget anticipates \$477 million of new debt proceeds from that bond.

The District received authorization to issue \$482.0 million of general obligation debt for capital projects in November 2012.

- An initial issue of \$144.8 million was drawn in May 2013
  - Series 2013B for \$68,575,000 will mature over a 20-year period to 2033
- A second issue of \$275.0 million was in April 2015
  - Series 2015A for \$30,300,000 will be paid off in 2016
  - Series 2015B for \$244,700,000 will mature over a 20-year period to 2035

PERS Bonds: The District has issued two series of PERS UAL bonds, in 2002 and 2003, with a third refunding issue in 2012.

Full Faith & Credit Debt: Full Faith and Credit obligations in the amount of \$11,000,000 were issued in July 2010 for Recovery Zone Energy and Water Conservation improvements.

- Interest payments are federally subsidized by this bond program
- Balance of interest payments and the principal are funded through transfers from the General Fund

Portland Public SD 1J	6-30-2013	6-30-2014	6-30-2015	6-30-2016
GO Bonds	144,840,000	108,890,000	343,575,000	326,019,000
PERS Bonds	419,033,448	407,499,453	395,957,773	384,074,573
Full Faith & Credit	24,124,505	20,757,999	17,581,295	14,300,000
<b>Total Debt Outstanding</b>	<b>587,997,953</b>	<b>537,147,452</b>	<b>757,114,068</b>	<b>710,094,573</b>

### 7. Is the Budget in Sync with Strategic Plan / Performance Objectives?

The three charts in section 3 of this analysis show the progress on three of the District's long term priorities. The District also added three topical priorities to the budget this year.

Strategic Plan/Performance Objectives	Budget Component
<b>Equity-Continue to close the racial achievement gap for our students</b>	In the face of funding shortfalls, the District maintained the "equity allocation" portion of the staffing schedule at 8%. This is a means of increasing staffing for students "with the greatest needs and to assist in closing inequities in achievement." This action cost \$17.5 million and maintained 168 FTE for this purpose.
<b>Student Learning and Achievement</b>	The District has a literacy innovation program that involves materials, teacher training and literacy coaching. The continued funding allocation for this program will expand it to 10 additional schools, doubling the number of schools benefiting from it.
<b>Student Health and Safety - ensuring that our students are physically and emotionally safe in our schools.</b>	<p>The district cut positions in central services and reallocated the resources to facilities maintenance in response to years of deferred maintenance. The District has reestablished a painting crew and increased custodial staff. (\$4.3 million); dedicated a revenue stream (\$1 million) to maintain new and remodeled schools: and allocated one time only funding to capital improvements.</p> <p>Student emotional health is being supported by the expanding the school health aides program (in conjunction with Multnomah ESD) district-wide, putting a paraprofessional health care provider (under the supervision of a nurse) at all schools.</p>

### 8. Budget Process & Budget Compliance

Yes	No	Compliance Issue (If not in compliance, explain below)
✓		1. Did the district meet publication requirements? {failed to notice sup bud-self reported to tsc}
✓		2. Do resources equal requirements in every fund?
✓		3. Does the G.O. Debt Service Fund show only principal and interest payments?
✓		4. Are contingencies shown only in operating funds?
✓		5. Did the budget committee approve the budget?
✓		6. Did the budget committee set the levy?
	✓	7. Does the audit show the district was in compliance with budget law? Yes with the exception that the district did not meet the notice requirements for a midyear budget adjustment in FY16.

**9. Highlights of the 2017-18 Budget to be published in TSCC Annual Report:**

- The total budget increased \$426 million (37%).
- The General Fund increased by 2%, from \$605 million to \$617 million.
- The budget for personnel services increased \$17 million (3%), in this budget.
- District eliminated 79 positions in order to balance budget.
- To counteract the results of deferred maintenance, a total of \$11.3 million in staffing and resources is being reallocated in the 2017-18 budget from the classroom and the central office to custodial and building maintenance functions.
- The district will receive just over \$23 million from gap bond authorization and \$86 million from local option taxes.
- The district anticipates the first bond issue from the 2017 GO bond authorization will be in 2017-18.

**Local Budget Law Compliance:**

The 2017-18 Budget is in substantial compliance with local budget law. Estimates were judged to be reasonable for the purpose shown.

The audit report for fiscal year 2015-16 does not note any expenditures in excess of budget. However it does note that the district failed to publish a notice of a budget change that year prior to acting on that budget change and a district board meeting. The district finance staff self-reported the oversight to TSCC and has instituted procedural changes to prevent future occurrences.

**Certification Letter Recommendations and Objections:**

TSCC staff did not find any deficiencies in the District's FY 2017-18 budget or budget process, but will inform the Commission of the FY16 audit finding and suggest a certification letter recommendation that the district adhere to its new budget notice policy.