

**Redmond School District
School Board Work Session
May 30, 2012**

In Attendance: Chair Jim Erickson, Vice-Chair Cathy Miller, Directors Ric Little, AJ Losoya, Bob Perry, Superintendent Shay Mikalson, RSD Staff; Mike McIntosh, Kathy Steinert, Mollie O'Brien, Trish Huspek, Association Representative – Karen Gray, media – Ben Botkin (*Bulletin*), Leslie Pugmire-Hole (*Spokesman*)

Board Chair Jim Erickson called the meeting to order with a quorum of five at 2:27pm.

Jim Erickson reported that Board members had been encouraged to send in any questions regarding the 2012-2013 proposed budget to the fiscal team prior to today's work session. This work session is the opportunity to provide answers to those questions to provide clarity regarding additional questions.

PERS

It is anticipated that the December 31, 2011 valuation of PERS assets and unfunded actuarial liability will result in rate increases that will cause the district's liability to be greater. The PERS reserve account was established knowing the liability was going to increase.

Ending Fund Balance

The Ending Fund Balance is the accumulation of money that was allocated for the 2011-2012 school year that is not anticipated to be spent. Included in the projected Ending Fund Balance is the 5% contingency amount the board has established as a minimum.

Mike McIntosh provided the board with a graph that reported the impact of potential 2013-15 PERS rate increases. He stated, "It is prudent for us to plan for these increases."

Jim Erickson stated it is important to remember that, "Every dollar that is saved can be put towards the anticipated rate increases in PERS expenditures."

Kathy Steinert spoke to the differences between individual school district PERS rates. Many districts issued bonds in the early 2000's to buy down their unfunded actuarial liabilities. The proceeds from these bonds have been invested in a "side account." We issued our PERS bonds in 2004 and our invested proceeds have been earning returns since then. We are given a rate credit, or rate relief, based on the returns the invested proceeds achieve. Other districts bonded earlier than we did so their rate relief credit is higher. That can cause their rates to be several percentage points lower than ours. Other districts have refunded their PERS bonds and have lowered their payments. RSD is not able to do that because the bond covenants changed with the later issue. That is why percentage rates vary district by district. Another thing that impacts the Redmond School District is the how many Tier I and Tier 2 employees we have in the district.

Mollie O'Brien reported that the amortization schedule for the debt was set up in anticipation of the number of employees and payroll growing in the Redmond School District. That has not happened.

Mike McIntosh stated there isn't a clear path to save the amount of money necessary to mitigate the increase in PERS rates. We must do our best to manage the funds in the district. Our rates are affected by the following:

1. Bond covenants changed before we bonded
2. Amortization was established assuming a growth pattern
3. The number of Tier I and Tier II employees the district has

The Districts who bonded early had the benefit of having their proceeds in the market when the market was realizing high returns. That helped districts to build “their nest egg” which is what they are using now to mitigate rate increases.

Jim Erickson stated, “We must be responsible in establishing a budget in light of this information.”

Mike McIntosh stated it is because of the work of Mollie O’Brien and Kathy Steinert in preparing a five-year financial plan that allows the district some time to wrestle with the reality of the projected PERS increases and to make plans to shape the long range plan for the district.

Cathy Miller asked for staff recommendation on how to address the PERS liability. She asked if the board established 5% contingency fund amount needs to be raised.

Mike McIntosh stated, “The district must be very mindful regarding contingencies and reserves to prevent being blindsided by an event that would impact the general fund in a dramatic way. The 5% level is not the lowest around the state. Ours used to be around 3% but 8-10% for a district of our size is recommended to have in our reserves. We are not coming to the Board to request adjusting that 5%. The proposed budget reflects a thoughtful process in establishing those reserves.”

Cathy Miller stated that because of unfunded mandates coming from the state, (Achievement Compacts, full day kindergarten, special education) she believes the board needs to increase the contingency fund by at least 1%.

AJ Losoya stated, “I share the same thoughts but it is a double edged sword. When we think about “the habit,” we might be to a level that seems stable.” Mr. Losoya reported that at this time, he believes the 5% is appropriate considering the current economic climate. He further stated that an 8-10% level is achievable in a healthy environment.”

Cathy Miller asked, “What do we need to do if we don’t build up the contingency fund? What hard decisions do we need to make that we aren’t doing now? How do we provide the most stability and not lose the talent in the district, families and the passion for what we are trying to provide in quality education.

Jim Erickson stated in that creating a budget there is a fine balance that needs to be achieved between preparing for the PERS precipice and the reality of state funding. “We are not in a position to be able to set aside \$4 million for the future. We must do everything we can to prepare for the future while being realistic about the amount of funds we have available to set aside for the future. Whatever we want to set aside comes at the cost of something else. We do not want to ignore these things.”

Bob Perry stated that we are looking for balance when there is in-balance. “We must make sacrifices and we must start now because if we wait a year or two it is going to be impossible.”

Jim Erickson stated that employee groups have made huge sacrifices over the last few years. “This district has been sacrificing many things. Are we willing to sacrifice the quality of education for our kids, the loss of talent in our district? What are we willing to sacrifice for preparation for the future. To set aside \$3 million more is at the cost of the education of our kids. We need to find balance.”

Bob Perry stated that the district also needs to be good stewards of the tax payer’s money.

Ric Little stated that he would support a 1% increase in the contingency fund.

Superintendent Mikalson reported that as a staff they have spent hours looking at possible solutions to the budgeting dilemma. “There are only hard choices left.” Superintendent Mikalson further reported that outside of people and days potential budget cuts represent a small dollar amount in the overall budget.

There was discussion regarding the steps that need to be taken to address the PERS rate increases and the systemic change that needs to occur at the state level.

Superintendent Mikalson reported that through the Confederation of School Administrators (COSA) there is an advisory panel on policy. "There hasn't been a platform in Salem to address this issue. There is a possibility that this topic will get to the floor for discussion."

Mike McIntosh stated it will be important for those districts that are paying in excess of 15% to speak with one voice to the legislators.

Mollie O'Brien reported that all municipal governments in the State of Oregon are also experiencing dramatic increases in rates.

2004 General Obligation Bond Refunding

Mike McIntosh reported that the fiscal staff are staying in close contact with Seattle Northwest to know when the window is open to refund. There is a 3% minimum gain that is required to be able to refund. The 2004 bonds are eligible for refunding but the 2008 bonds are not. On Friday there will be a conversation with a Moody's rating analyst and then the district will receive our rating. "When you refund bonds it isn't a savings to the school district but is a savings for the patrons. The amount of savings to the taxpayers is not large but it is the districts obligation to pass on any savings possible.

Bob Perry asked if we were to lower our ending fund balance would it have a negative effect on our bond rating. Mollie O'Brien reported the district is at a minimum percentage of what they would like to see. "They are pleased that we have a board policy that dictates the 5% and if we were to go lower, that would raise some red flags for them. I am not sure how much we would need to increase that rate to have an effect on our credit rating. It will take a fairly large increase to cause a jump."

Mollie O'Brien reported that there will be a ratings call on Friday with the rating agency. "They will be asking specific questions with a focus on liquidity. They are looking at past financial history, approved budget for the 12-13 fiscal year, the outstanding debt of the district, and the financial outlook for the region." Once that ratings call happens we should have the actual rate by the end of the following week. Pricing will occur during the second week of June. Closing would be June 28th if everything falls into place." A statement in the Preliminary Office Statement is that "the district has never been substandard."

Cathy Miller asked for staff recommendation regarding contingency. Mike McIntosh recommended leaving the established rate at 5%. "It isn't where I want it to be, no but it is where it has to be. We are in the second year of the biennium and what I have learned is that we should not do a 50/50 split again. It has made this year extremely difficult. We are going to do our level best to balance our human resources, resources that affect students directly and indirectly, and to manage our resources for the unknowns."

Cathy Miller stated, "I can wait one more year before going draconian. However, we must become vocal, active, and aggressive in moving these issues forward to finding a solution."

Bob Perry stated that he won't be approving the proposed budget. He believes it is important for the association to understand that unfunded mandates that are coming from the state in the areas of special education and all day kindergarten in 2015. In addition when the RPA contract is brought forward for renewal it is possible they could go with another sponsor and then they would not be subject to enrollment caps.

Eastside Property

Mike McIntosh provided an update on the 49 acres the district owns off of 9th street. The property has been tied up in zoning. The City of Redmond has incorporated the entire piece of property into the eastside document and was able to assist in litigation that got around the ODOT funnel. Changes have been made that will allow the property to be marked as the largest light industrial tract in the state. There are several people interested. The City is

brokering the conversations. It isn't known when we would actually be selling the property. As one of the owners of the entire property, our obligation would be to put in a zoning change application. The zoning change application will cost the district \$20,000.

Boys and Girls Club

They have officially moved into their new site on 15th which left the current property vacant. Full Circle Outreach is in the process of writing a contract to lease the space. That will result in a small source of revenue (\$500.00 per month). Exciting things are happening in relation to some properties the district owns.

Ridgeview High School

Mayor Endicott had a large group of stakeholders participate in the meeting with George Fox University who has expressed an interest in the Evergreen building. While that possibility is pursued, George Fox University has leased an office space at Ridgeview. They will use part of the building at night to have an adult teacher education program. Those agreements have led to a similar offer to NNU if they want to begin a satellite after hours class schedule.

There was conversation regarding the auditorium facilities at Ridgeview High School. There have been many inquiries about renting the facility for various community events. Mike McIntosh reported that his office receives several calls a week inquiring about renting the space.

Board Meetings for 2012-2013

Superintendent Mikalson provided two documents for the board's consideration and discussion regarding a potential model for future board meetings. The model would provide for one scheduled work session and one board meeting each month.

AJ Losoya would recommend continuing with the current model of scheduling a board meeting every three weeks and scheduling work sessions as needed.

Jim Erickson stated there are several things that need to be discussed as it relates to board meetings; do we have meetings at school or not, discussion regarding listening sessions and school visits.

Cathy Miller requested a refined snapshot of what the block of time would look like. She reported that everyone seems to be thrilled to have the board at the schools but the issue that needs to be considered is the additional time we are asking staff to dedicate to prepare for and then clean-up after the meetings. "The board obviously wants to visit the schools and speak to the parents but we need to discuss if the actual board meeting should be held at the schools in light of the impact to staff."

Jim Erickson would also request a discussion to review the format of the board meetings. "This year we changed how we have done board meetings; in both the order of when union reps present and also changes in the focus. We need to review the purpose of a board meeting and what protocols need to be identified. What have we learned this year on doing our job better and what protocols do we need to identify for next year."

Cathy Miller requested chronologic snapshot of key decisions that need to be made. "It will be important with a new leadership team to identify specific items in the upcoming 12 months where major decisions will need to be made."

A discussion item will be added to the June 27 board meeting agenda.

Mike McIntosh reported an administrative team retreat that will be on June 14th to allow district leadership to begin identifying priorities for next year.

Mike McIntosh requested a time to talk with the board regarding communication priorities in the district. He would recommend having that conversation after the June 14th leadership team meeting.

ADJOURN

With concurrence of the Board, Jim Erickson adjourned the work session at 4:25 pm.

Jim Erickson, School Board Chair

Trish Huspek, Executive Assistant