BOARD OF EDUCATION
Portland Public Schools
Special Meeting
January 5, 2021

VIRTUAL MEETING

*In light of current public health concerns related to COVID-19, this meeting will take place virtually.**

Under the provision of ORS 192.670, the meeting will be streamed live:
https://www.youtube.com/user/ppscomms/live

To request to sign-up for public comment please send an email with your first and last name, and topic to PublicComment@pps.net, or call Kara Bradshaw at 503-916-3906. Requests for Public Comment will be processed in the order that they are received, and should be received by 12:00 pm on the day of the meeting. Once your spot is confirmed, instructions for addressing the board will be sent to you via email.

Public comment related to an action item on the agenda will be heard immediately following staff presentation on that issue. Public comment on all other matters will be heard during the "Public Comment" time. This meeting may be taped and televised by the media.

AGENDA

I. 6:00 pm - Introduction
II. 6:05 pm - Resolution 6221 - Appointment of Bond Accountability Committee Members
Vote- Public Comment Accepted
III. 6:15 pm - Resolution 6222 - Portland Public Schools Budget Goals for 2021-22
Vote- Public Comment Accepted
IV. 7:00 pm - Adjourn

Portland Public Schools Nondiscrimination Statement
Portland Public Schools recognizes the diversity and worth of all individuals and groups and their roles in society. The District is committed to equal opportunity and nondiscrimination based on race; national or ethnic origin; color; sex; religion; age; sexual orientation; gender expression or identity; pregnancy; marital status; familial status; economic status or source of income; mental or physical disability or perceived disability; or military service.

RESOLUTION No. 6221

Recommendation of Bond Accountability Committee Members as part of the 2012, 2017 and 2020 Bond Programs

RECITAL

A. As part of the 2012 Bond Program (Measure 26-144), Resolution 4651 created a citizen oversight committee (Bond Accountability Committee or BAC) to assist the PPS Board in monitoring the planning and progress of the 2012 Capital Bond Program.

B. Board Resolution No. 5475 (June 20, 2017) called for the amendment of the BAC charter to include oversight of the 2017 Modernization and Health and Safety Bond as well as increase committee membership to 10 appointees.

C. Three members of the committee complete their terms on 12/31/2020 and are not able to be considered for additional terms under the membership conditions laid out in the BAC charter. An additional position is currently vacant. This allows for the appointment of four new members.

D. Staff recommends the appointment of four new members to the Bond Accountability Committee. With this appointment, the committee will have ten members.

RESOLUTION

The Board of Education approves the appointment of four new Bond Accountability Committee Members as follows:

Kenechi Onyeagusi	4 years (term ends 12/2024)
Cara Snow	4 years (term ends 12/2024)
Angela Jarvis Holland	3 years (term ends 12/2023)
Darren Golden	3 years (term ends 12/2023)

PORTLAND PUBLIC SCHOOLS
OFFICE OF SCHOOL MODERNIZATION
501 North Dixon Street / Portland, OR 97227
Telephone: (503) 916-2222

Date: December 10, 2020

To: School Board

From: Marina Cresswell, Senior Director, Office School Modernization
Dan Jung, Chief Operating Officer

Subject: Bond Accountability Committee Appointees

BACKGROUND

The 2012 General Obligation Bond ballot measure and explanatory statement language was referred to the Multnomah Elections Division on August 21, 2012. The measure's summary statement identified the requirement for PPS to provide citizen accountability and oversight. With the passage of the 2012 Capital Construction Bond, staff developed a Bond Accountability Committee (BAC) charter with Board input to address this requirement.

The current BAC has 9 members, with 3 leaving the committee by the end of 2020. The remaining 6 BAC members collectively have strong professional experience and expertise in construction management, design and engineering experience, auditing, project and program management, public and private capital planning and finances, among many other skills and backgrounds. With the departure of several BAC members, coupled with passage of the 2020 bond, staff sees an opportunity to maintain the strong capital management expertise on the committee while also increasing the breadth of experience on the BAC and the committee's demographic diversity.

In addition to the core competencies noted in the BAC Charter, staff recommends prioritizing potential candidates with experience in one or more of the 2020 bond scopes of work that are new to the capital program, and applicants with professional experience in supporting business equity in capital projects. Additionally staff recommends prioritizing applicants that will increase the diversity of the committee.

Earlier this year staff and board members co-created a BAC application form. The form was posted to the BAC website October 20, 2020. Staff and board members reached out to potential applicants and directed interested parties to the application form. Fourteen individuals submitted applications for consideration. Based upon the provided applicant information and pursuant to the discussion at the December 10, 2020 School Improvement Bond Committee, staff recommends that the Board of Education consider the following appointees for membership to the Bond Accountability Committee:

Kenechi Onyeagusi
Cara Snow
Angela Jarvis Holland
Darren Golden

ANALYSIS OF SITUATION

The Bond Accountability Charter allows for 10 members. Appointing 4 members will total 10 members. Members are appointed to staggered 2-, 3-, and 4-year terms, and may reapply for consideration to serve additional terms but may not serve more than 8 years total. The recommended terms are staggered to ensure a blend of term lengths.

COMMUNITY ENGAGEMENT

Board members, current BAC members and PPS staff reached out to the community and spoke to several potential replacements. Specific efforts were made to reach out to underrepresented communities and to potential applicants with experience in one or more of the 2020 bond scopes. All applicant data, including demographic information and professional experience, was provided for review to the School Improvement Bond Committee members, but applicant names were removed to ensure the selection process was focused on increasing demographic diversity and breadth of experience on the Bond Accountability Committee.

TIMELINE FOR IMPLEMENTATION / EVALUATION

Upon approval from the Board of Education, the Office of School Modernization will inform the applicants of their appointment.

STAFF RECOMMENDATION

Staff recommends the appointment of Kenechi Onyeagusi, Cara Snow, Angela Jarvis Holland, and Darren Golden to the committee for the following term durations:

Kenechi Onyeagusi	4 years	(term ends 12/2024)
Cara Snow	4 years	(term ends 12/2024)
Angela Jarvis Holland	3 years	(term ends 12/2023)
Darren Golden	3 years	(term ends 12/2023)

As a member of the PPS Executive Leadership Team, I have reviewed this staff report.

_________ *(Initials)*

RESOLUTION NO. 6222

Resolution to Adopt a 2021-22 Budget Goal for Ending Fund Balance Reserve

RECITALS

A. It is the mission of Portland Public Schools to ensure that every student by name is prepared for college, career, and participation as an active community member, regardless of race, income, or zip code.

B. Government Finance Officers Association (GFOA) recommends a school district develop long-term revenue and expenditure forecasts as part of the budgeting process.

C. The GFOA also recommends that the Board set a budget goal for the General Fund reserve to guide the staff in the proposed budget development process.

D. On December 1, 2020, in a Board meeting and again on December 15, 2020, in a work session, the Board of Education reviewed and discussed the Five-Year Forecasted shortfall based on the State of Oregon Governor's proposed budget of $9.1B for the State School Fund (SSF).

E. The Governor's proposed budget also includes an appropriation for the Student Investment Account (SIA) of $31M annually and an additional federal stimulus package that is projected to add $33M in one-time support, that can be used to meet the future needs of accelerating learning as students return to school.

F. The Five-Year Forecast Scenario Summary is shown in Attachment A. Staff recommends adopting a General Fund budget goal to maintain an 8% fund balance as demonstrated in Scenario 4.

RESOLUTION

The Portland Public Schools Board of Education adopts the budget goal to maintain a minimum 8% General Fund Balance reserve in the development of the 2021-22 budget.

PORTLAND PUBLIC SCHOOLS
OFFICE OF DEPUTY SUPERINTENDENT
501 North Dixon Street / Portland, OR 97227
Telephone: (503) 916-3380

To: School Board

From: Claire Hertz, Deputy Superintendent of Business & Operations
Nicole Bassen, Director of Budget & Grant Accounting

Subject: Budget Goals 2021-22

BACKGROUND

In December, the Board met and discussed the five-year general fund financial forecast based on the State of Oregon's Governor's proposed budget of $9.1B for the State School Fund (SSF) for the 2021-23 biennium. The following years assume a recession recovery beginning in the 2023-24 school year and carries through 2026. The district's pre-COVID enrollment projections were forecasted to decline over the next five years, so while the economy is forecasted to recover, the lower enrollment in the outer years offsets most of those increases. The Governor's current service level forecast includes an overall average of 6% PERS savings for the biennium across the state. Due to the early issuance of PERS bonds, PPS has some of the lowest PERS rates of school districts in the state and has realized savings over the last 15+ years. The district will not realize the additional PERS savings needed in 2021-22 to offset the lower state revenue allocation. The state projection for the next biennium is based on a 50/50% split for the current biennium and means a lower revenue starting point when calculating the SSF for the 2021-23 biennium. All of these assumptions lead to a revenue shortfall in the coming years.

Compounding the revenue shortfall, the forecast includes expenditure increases that will allow the district to maintain current service levels. These include salaries, associated payroll, health benefits, and other operational increases in targeted areas (ie. contracts, utilities, insurance).

Additional resources include the Student Investment Account (SIA). Revenue is estimated to increase to $778.8M across the state for the biennium and will include $31M in annual SIA funding to PPS. The projected increase will allow for $17M in SIA investments that were temporarily funded in the general fund for 2020-21 to be moved back to SIA funding. A federal stimulus package was approved by Congress and signed by the President on December 28, 2020. The initial projection is $33M in one-time funding for PPS before allocations and pass-thru amounts to charter schools, community-based organizations, and private schools receiving Title funds. These funds can be used to meet the future needs of students as they return to school in person. A plan is being developed to support student learning and will be shared with the board as we build the proposed budget and strategic plan later this spring.

RELATED POLICIES/BEST PRACTICES

Government Finance Officers Association (GFOA) has developed *Best Practices in School District Budgeting* and recommends all school districts go through the following steps for planning and budgeting process: Plan and Prepare, Set Instructional Priorities, Pay for Priorities, Implement Plan, Ensure Sustainability.

In the first step, Plan and Prepare, GFOA recommends a school district develop budget principles and policies to formalize standards and fundamental values that should govern the budgeting process. It is recommended staff develop long-term revenue and expenditure forecasts (typically covering five years) as part of the budget process and to consider these forecasts during budget development in order to address the district's future financial position. The Portland Public Schools Five Year Financial Forecast prepared for the Board includes a staff recommendation to maintain an 8% General Fund reserve over the next five years. The Five Year Financial Forecast will be updated annually in the fall in preparation for the budget process.

ANALYSIS OF SITUATION

As part of the GFOA best practices, it is recommended the Board set a budget goal for the General Fund reserve to guide staff in the coming proposed budget development process. If the Board chooses not to pass this resolution, staff would develop the proposed budget without guidance or parameters for balancing the general fund budget. In previous years, the board established the goal of growing the General Fund balance to 10% by 2025. Since then, the policy has been updated, and no longer has a specific fund balance goal. It would be difficult to have an early staffing process without knowing the board's intent to use or maintain the General Fund balance in 2021-22.

FISCAL IMPACT

The staff recommendation to maintain an 8% General Fund fund balance will allow the district to address reductions early on due to both the pandemic and declining enrollment. This early attention to the possible shortfall will result in smaller future year shortfalls that may be mitigated with faster economic recovery or a higher than projected return for enrollment.

COMMUNITY ENGAGEMENT

The five-year forecast was reviewed at the December 1, 2020 board meeting and again in a December 15, 2020, board work session.

TIMELINE FOR IMPLEMENTATION / EVALUATION

If approved, staff will build the proposed budget to align current and new investments within the budget goal parameters.

BOARD OPTIONS WITH ANALYSIS

The attached Five-Year Forecast Scenario includes the following scenario summary. The recent Federal Stimulus Package has not yet been taken into consideration in the scenario below and will have a positive impact on developing the budget.

Scenario Summary and Staff Recommendation

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Scenario 1 Fund Balance	$ 63,609	$ 54,014	$ 49,201	$ 43,524	$ 37,284	$ 30,592	$ (212,440)
	9%	8.0%	7.0%	6.0%	5.0%	4.0%	
Revised Shortfall		***(12,994)***	***2,762***	***800***	***(3,321)***	***(5,583)***	***(18,336)***
Scenario 2 Fund Balance	$ 63,609	$ 47,262	$ 56,230	$ 65,285	$ 74 569	$ 76,480	
	9%	7%	8%	9%	10%	10%	
Revised Shortfall		***(6,242)***	***(17,770)***	***(153)***	***(4,110)***	***1,336***	***(26,940)***
Scenario 2 Alternate	$ 63,609	$ 47,262	$ 49,201	$ 58,032	$ 67,112	$ 76,480	
	9%	7%	7%	8%	9%	10%	
Revised Shortfall		***(6,242)***	***(10,741)***	***(6,957)***	***(4,132)***	***(6,324)***	***(34,397)***
Scenario 3 Fund Balance	$ 63,609	$ 47,262	$ 49,201	$ 50,778	$ 52,198	$ 53,536	
	9%	7%	7%	7%	7%	7%	
Revised Shortfall		***(6,242)***	***(10,741)***	***298***	***(3,727)***	***(5,954)***	***(26,366)***
Staff Recommendation							
Scenario 4 Fund Balance	$ 63,609	$ 54,014	$ 56,230	$ 58,032	$ 59,655	$ 61,184	
	9%	8.00%	8.00%	8.00%	8.00%	8.00%	
Revised Shortfall		***(12,994)***	***(4,267)***	***350***	***(3,705)***	***(5,942)***	***(26,558)***

CONNECTION TO BOARD GOALS

The budget process reviews current and new investments for alignment with the strategic plan priorities and Board goals. The district recognizes the need to utilize reserves as one resource to cover the shortfall and the use will allow the staff to move forward with work on a proposed budget that will allow for the continuation of current investments as well as work to prioritize additional work.

STAFF RECOMMENDATION

After reviewing the five-year forecast with the board, the staff recommends the district set budget goals using scenario 4. This scenario will allow the district to maintain an 8% General Fund balance through the next five years. The amount of reserve will be established by the Board annually during the forecast and budgeting process.

As a member of the PPS Executive Leadership Team, I have reviewed this staff report.

___*CH*_______ *(Initials)*

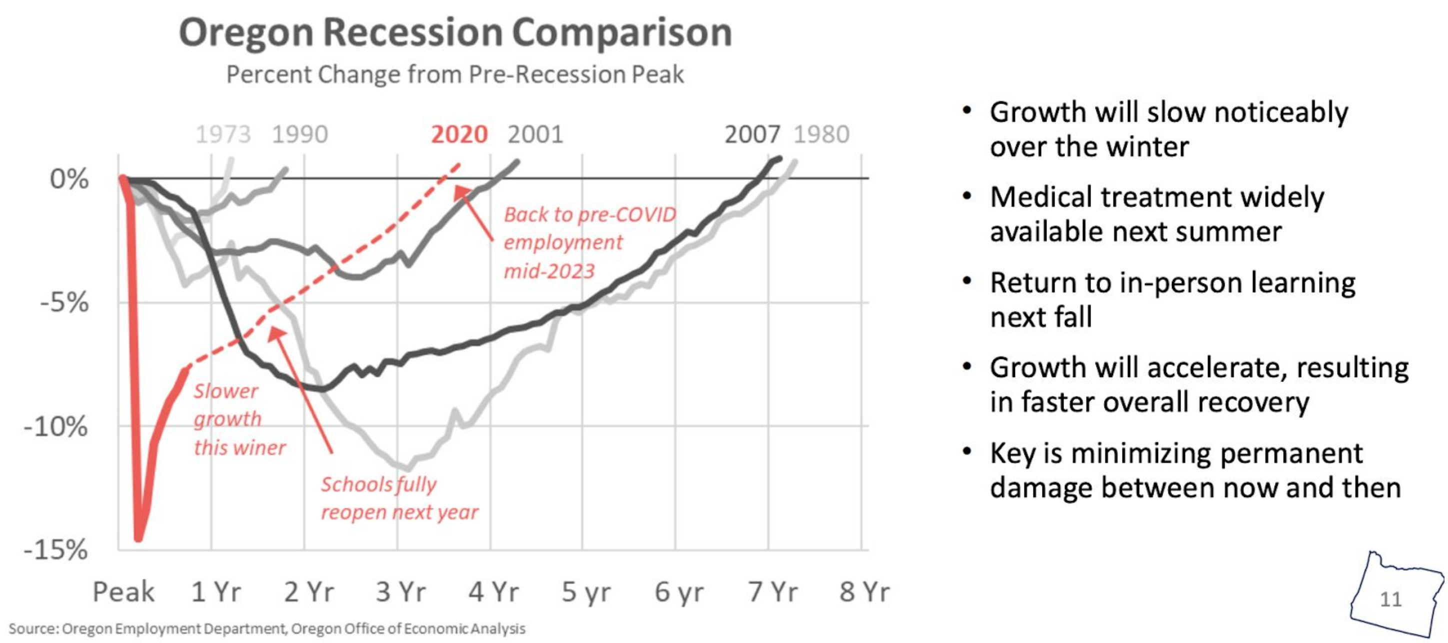
ATTACHMENTS

A. Five-Year Forecast

Five-Year Financial Forecast

Introduction

This five-year general fund financial forecast is based on the State of Oregon Governor's proposed budget of $9.1B for the State School Fund (SSF) for the 2021-23 biennium. The Governor's forecast includes an overall average of 6% PERS savings for the biennium across the state. It utilizes a projection based on a 50/50% split for the SSF from the 2019-21 biennium, while historically, the SSF has been projected using a 49/51% split for the prior biennium. Both of these budget assumptions lead to a revenue shortfall in the coming years.



The graphic above is from the Oregon Office of Economic Analysis who has reported the Oregon Recession Comparison in their December 2020 Economic Forecast. The 2020 recession represents the figure of a square root in red showing the initial quick drop in the economy due to the pandemic and closing of many businesses, a quick midpoint rise upon reopening and a recovering back to pre-COVID employment in mid-2023. This represents a quicker recovery than the initial forecast in June 2020 when the recovery was initially predicted to concur in mid-2024.

The five-year forecast includes a recession recovery beginning in the 2023-24 school year and carries through 2026. PPS' enrollment projections pre-covid were forecasted to decline over the next five years, so while the economy is forecasted to turn around, the lower enrollment in the outer years offsets most of the increases.

Revenue Assumptions

The district will assume an SSF 49% allocation for the first year of the biennium and a 51% allocation for year two throughout the five-year forecast. State School Fund growth for 2020-21 is based on the actual legislative appropriation, and the 2021-23 biennium is based on the Governor's proposed budget that was released on December 1, 2020. The following years assume a recovery of the current COVID-related recession and return to a 4% growth rate based on historical trends.

The Average Daily Membership (weighted) (ADMw) for 2020-21 is based on the hold harmless extended ADMw provided for in the SSF formula due to lost enrollment during the pandemic. In 2021-22, the assumption is half of the expected enrollment would return to school, and the following years are based on the Portland State University mid-range enrollment projections.

The Local Option Levy revenue is projected at a conservative 3% growth rate per year based on historical trending data.

While the Student Investment Account (SIA) is not part of the general fund, in 2020-21, some strategic plan investments were moved to the general fund when SIA funding was reduced. In the 2021-23 biennium, the state economist has forecasted a return of corporate income tax, and SIA funding will increase to $31M per year to Portland Public Schools. Future years may realize SIA funding growth to the original $40M level.

Revenue Assumptions (in thousands)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
SSF % Growth	5.41%	4.88%	4.88%	0.56%	0.56%	4.00%	4.00%	4.00%
SSF Appropriation	$ 8,200,000	$ 9,000,000		$ 9,100,000		$ 9,828,000		$ 10,614,240
SSF ADMw PPS	57,823	57,624	57,582*	57,274	57,832	57,389*	56,889*	56,193*
SSF Formula PPS	$477,318	$500,198	$513,117	$507,272	$531,654	$546,871	$563,120	$576,671
SSF % Growth PPS	6.13%	4.79%	2.58%	-1.14%	4.81%	3.63%	3.08%	2.76%
Local Option $ Growth	$94,272	$97,372	$100,366	$103,377	$106,478	$109,672	$112,963	$116,351
Local Option % Growth	6.64%	3.29%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
SIA $ PPS			$12,393	$31,000				

**SSF will be calculated on the hold harmless extended ADMw for the prior year*

Acronyms
SSF - State School Fund
ADMw - Average Daily Membership Weighted
SIA - Student Investment Account

Expenditure Assumptions

Salaries are projected to grow at an average rate based on contractual agreements across all employee groups. Associated payroll costs include a .57%decrease in the blended PERS rate and an increase in health benefits of 5% each year. In 2019-20 PPS saw a 12.37% increase in expenditures for health insurance, mainly due to a higher than usual year for claims in addition to the credits used to buy down insurance rates in previous years ended. The remaining associated payroll rates remain relatively flat, with some minor fluctuations to account for debt service on our PERS bonds.

The Governor's budget includes a budget assumption for PERS average biennial savings of 6% for K-12 education, or what would equate to an $11.8M savings in 2021-22 based on PPS projected salaries. Due to the early issuance of PERS bonds, PPS has some of the lowest PERS rates of school districts in the state, and has realized savings over the past 15+ years. The district will not realize additional PERS savings needed in 2021-22 to offset the lower state revenue allocations. In addition, the current service level calculation completed by the Department of Administrative Services (DAS) does not include the cost of paying down the PERS bond expense paid annually. The actual PERS rate reduction for PPS of .57% will equate to closer to $2.2M in savings for the District. This $9.6M difference will have a significant impact on balancing the general fund for PPS.

Other expenditure increases across the District include utilities, transportation, and property and liability insurance premiums at a 2% annual increase. Charter schools will increase based on the SSF funding level increase, and all other expenditure categories remain flat.

Current projected SIA revenue includes an estimated increase to $778.8M for the state over the biennium, compared to the current allocation of $150M for 2020-21. With this increase, the district is projecting $31M in revenue annually. The five-year forecast includes returning SIA investments to the SIA Grant Fund in 2021-22 that were budgeted in the General Fund in 2020-21. The current SIA projection will allow for another $7.7M in investments in future years and could be used to offset losses to the General Fund.

Expenditure Assumptions (in thousands)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Salary Increase	$ 344,871	$ 356,160	$ 372,596	$ 393,017	$ 411,646	$ 431,081	$ 451,014	$ 471,464
%	4.32%	3.27%	4.61%	4.78%	4.74%	4.67%	4.62%	4.53%
PERS Rate	$ 9,800	$ 16,399	$ 17,211	$ 16,069	$ 16,860	$ 17,646	$ 18,460	$ 19,296
%	2.82%	4.80%	4.68%	4.11%	4.11%	4.11%	4.11%	4.11%
Payroll Costs	$ 76,455	$ 78,258	$ 81,624	$ 85,806	$ 90,557	$ 94,694	$ 99,430	$ 104,325
%	23.25%	23.06%	21.64%	22.50%	22.18%	22.18%	22.28%	22.38%
Health Increase	$ 71,825	$ 80,707	$ 85,789	$ 89,912	$ 94,469	$ 99,193	$ 104,152	$ 109,360
%	2.23%	12.37%	6.30%	5.00%	5.00%	5.00%	5.00%	5.00%
Charter School	$ 13,796	$ 14,066	$ 14,890	$ 15,022	$ 15,156	$ 15,762	$ 16,393	$ 17,049
%	-0.92%	1.95%	5.86%	0.89%	0.89%	4.00%	4.00%	4.00%
SIA to Grant Fund				$9,833	Carries through 2026			
New SIA $				$7,712	Carries through 2026			

Changes between Draft PPS Forecast and Updated Forecast

Revenue changes between the draft PPS forecast presented on December 1, 2020, and the updated forecast prepared after the Governor's proposed budget for the 2021-13 biennium include an SSF revenue reduction from $9.16B to $9.1B. SIA was updated from $750M to $778.8M. Other revenue changes include changes to assumptions to align with updated information from the Oregon Department of Education (ODE). The largest being statewide local revenue projections that went from 4% to 3.5% to account for the loss of assessed value due to forest fire impacts.

Federal Funding

In the current year, the district will realize a large increase in the budgeted grant revenue. The additional resources are primarily due to one-time funding provided by the Elementary and Secondary School Relief Funds (ESSER) of $8.4M and the Federal Emergency Management Agency (FEMA) potential reimbursements of $4.5M. The forecast for 2021 includes estimated fund balance carryover from 2019-20 for unspent funds due to the change from brick and mortar education to Comprehensive Distance Learning. ***Update 12/28/20:*** *A Federal Stimulus Package was approved by Congress and signed by the President with an initial estimate of $33 million for PPS funding to be available beginning March 2021.*

PPS' Title I-A funding has declined for the past seven years due to lower poverty rates across the district. The Title I-A allocations are based on four formulas: Basic Grants, Concentration Grants, Targeted Grants, and Education Finance Incentive Grants (EFIG). The Title forecast currently shows that federal funding levels will remain relatively flat. However, PPS has fallen below the overall 15% district poverty level and the U.S. Census Bureau's Small Area Income and Poverty Estimate (SAIPE) census student threshold. The lower poverty level makes PPS ineligible for the Concentration Grant portion of the overall Title IA funding formula. Before the pandemic, the forecast included a reduction in allocation over the next three years. At this time, it is unclear what impact the pandemic will have on the funding levels.

Federal Revenue History (in thousands)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Federal Revenue (excluding Nutrition Services)	$42,622	$40,709	$38,805	$39,502	$37,460	$43,509	$67,053
% Change		-4.49%	-4.68%	1.8%	-5.17%	16.15%	54.11%

Variables

As with any financial forecast, the revenue and expenditure assumptions have possible variables. In recognition of this, detailed below are variations to the initial assumptions. The forecast includes a conservative Local Option revenue projection of 3% while the overall historical average is 9%. There are a few outliers, and when those are removed, a more realistic trendline would be closer to 5%.

Scenario Variables (in thousands)

	2021-22	2022-23	2023-24	2024-25	2025-26
Local Option value of 1% increase	$ 1,004	$ 1,034	$ 1,065	$ 1,097	$ 1,130
Local Option 3% (Forecast)	$103,377	$106,478	$109,672	$112,963	$116,351
Local Option 5% annual increase	$ 105,384	$ 110,653	$ 116,185	$ 121,995	$ 128,095
Local Option 9% annual increase	$ 109,399	$ 119,245	$ 129,977	$ 141,675	$ 154,425
1% COLA Savings All Employees	$ (3,555)	$ (7,296)	$ (7,849)	$ (8,558)	$ (9,323)
SSF ADMw Increase (pre-covid)		$ 4,247			

Below is the Local Option Levy history from 2007-08 to a projection for 2020-21.

Local Option History (in thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Growth Rate		4%	2%	0%	39%	-3%	9%
Local Option Revenue	$35,217	$36,696	$37,510	$37,533	$52,036	$50,430	$54,738
Dollar increase/decrease		$1,479	$814	$24	$14,503	-$1,607	$4,308

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Growth Rate	13%	21%	10%	7%	7%	3%	3%
Local Option Revenue	$62,030	$75,357	$82,878	$88,405	$94,272	$97,372	$100,366
Dollar increase/decrease	$7,292	$13,328	$7,520	$5,527	$5,867	$3,101	$2,993

PPS' enrollment projections from the Portland State University (PSU) demographer indicate that enrollment was on a decline and will continue to decline in future years. In the forecast, the district assumes half of the lost enrollment due to COVID returns in the first year (2021-22), and future enrollment uses the PSU lower growth scenario for enrollment projections. The lower enrollment in the outer years offsets the increase in SSF Revenue as the recession comes to an end. If all enrollment loss due to COVID were to return and the district returned to pre-covid numbers for 2021-22, there would be a $4.2M increase in revenue for next year. Updated enrollment projections from PSU will be completed after the first of the calendar year.

Impact of Fund Balance on Long-Term Financial Health

The Government Finance Officers Association recommends government entities establish a formal policy on fund balance for Generally Accepted Accounting Purpose (GAAP) and budgetary purposes. The fund balance is a measure of the financial resources available in a fund. Fund balance should be maintained to mitigate current and future risks such as revenue shortfalls and unanticipated expenditures. PPS has a formal policy to maintain a 5-10% General Fund balance and establish a goal in 2017 to reach a 10% General Fund balance by 2025.

GFOA stipulates a governing board should articulate a framework and process for how the government would increase or decrease fund balance over a specific period and provide broad guidance for how resources will replenish fund balance should the balance fall below the level prescribed.

Fund balance levels should be based on each entity's unique circumstances. GFOA recommends that regardless of size, a district should maintain no less than two months of regular general fund operating revenues. Factors to be considered include:

FACTORS	Examples
Significant one-time outlays	Disasters, immediate capital needs, state budget cuts, change in economic or political conditions that negatively impact the District's revenues, unexpected infrastructure repair/replacement,
Needs from other funds	Availability of resources in additional funds
Impact on bond ratings	Increased cost of borrowed funds
Commitments and assignments	Compensate for any portion of fund balance already committed - overpayment of state school fund to be refunded in a future year

Recently, Voters approved a record-breaking $1.2B bond program last month with an overwhelming level of support with a 75% approval rate. As the district issues bonded debt for the continued modernization of school facilities and upgrades to curriculum and technology, the credit rating the district receives helps to determine the interest rates pats for bonded debt.

This past month, PPS updated credit ratings with S & P Global Ratings and Moody's Investors Service for the upcoming issuance of bonds for the 2020 program. Both rating agencies noted fund balance as an essential factor in current and future ratings.

The S & P press release on December 2, 2020, upgraded the stable outlook to a positive outlook and affirmed its 'AA-" underlying rating. In describing the upside scenario for the positive outlook, the report included, *"The outlook revision and positive outlook on the underlying rating reflect our opinion that there is at least a one-in-three chance that we could raise the rating within the two-year outlook horizon. Based on fiscal 2020 estimated results, the district's available reserves have strengthened to a level we consider strong. We expect available reserves to remain strong in the near term, supported by the district's recent history of active budgetary management that has supported positive results, diverse operating revenue mix, and positive state budgetary results likely to lead to near-term stability in state aid funding."*

On November 24, 2020, Moody's Investors Service confirmed an Aa2 rating for the upcoming bond issuance later this month. In their press release, Moody's summarized, "*We expect that prudent management will maintain a satisfactory financial position, especially given revenue growth from local taxes and state support."* In listing the factors that could lead to an upgrade, "substantial and sustainable growth in reserves and liquidity" was noted. Factors that could lead to a downgrade include "Significant growth in fixed costs that materially reduce operating flexibility, runaway growth in operating expenditures, and sustained reduction in district reserves."

Current Service Level

Portland Public Schools Current Services Level (CSL) calculation for SSF funding level would be $9.7B for the 2021-23 biennium. This funding level would allow PPS to provide the same level of services as 2020-21 into the next biennium. The proposed SSF budget of $9.1B is based on an $8.9B CSL using a 50/50% split between years one and two of the 2019-21 biennium. SSF revenue was allocated, continuing a historically utilized 49/51% allocation methodology by ODE for 2019-21. Using a 49/51% split when calculating the starting point for the 2021-23 biennium, it would be $9.16B, a $163M difference. If the state were to remove the impact of the average PERS reduction from the $8.9B, the CSL would be closer to $9.5B, another $600M difference. The total SSF CSL funding level needed for 2021-23 would be $9.7B to align to the needs of the PPS actual CSL.

General Fund Projection Summary

The summary below provides a high-level overview of the budget shortfall each year. Additional details are available on the General Fund Projections chart (page 11).

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Totals**
Beginning Fund Balance	**$ 64,474**	**$ 63,609**	**$ 33,308**	**$ 2,840**	**$ (35,405)**	**$ (85,244)**	
Total Revenue	678,523	675,172	702,874	725,394	745,685	764,800	
Total Expenditures	679,388	705,473	733,342	763,639	795,525	828,388	
Budget Shortfall	*(865)*	*(30,301)*	*(30,468)*	*(38,245)*	*(49,839)*	*(63,587)*	*(212,440)*
Ending Fund Balance	**63,609**	**33,308**	**2,840**	**(35,405)**	**(85,244)**	**(148,831)**	

Discussion Scenarios

The scenarios all include the assumptions discussed earlier and focus on how, when and what impact using reserves will have to balance the budget. If the district decided to spend the fund balance down each year without expenditure reductions, current reserves would last for two years. The district would need to make reductions of $39M in year three to balance the budget. Spending reserves equates to one time funding and only delays the inevitable reductions necessary and negatively impacts the district's long-term financial health. Interest rates for bond issuances would increase, and the district's credit rating would be lowered.

This table shows the current board annual goals to grow the General Fund fund balance to 10% by 2025:

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Fund Balance Goal	6%	7%	8%	9%	10%	10%

Scenario 1

Strategy: Scenario 1 reflects a projection showing the outcome of spending down the fund balance by 1% a year to reduce the total reductions needed.

Impact: The total reductions needed over the five years is lowest in this scenario at $18.3M however the fund balance is also the lowest in this scenario with a balance of $30.6M, a $33M loss. The district's long term financial health will be the most impacted in this scenario. The extended enrollment projections outside the five-year forecast show continued declines which could lead to the need to continue to reduce in future years.

The lower fund balance makes this a less ideal scenario and puts the district's long term financial health at risk.

	Scenario 1 - Spend 1% of fund balance per year (in thousands)						
	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Budget Shortfall		$ (30,301)	$ (30,468)	$ (38,245)	$ (49,839)	$ (63,587)	$ (212,440)
Prior Year Identified Reductions		-	20,706	25,655	32,567	43,600	122,528
Fund Balance		9,596	4,813	5,679	6,239	6,692	33,018
Annual Reductions Needed		***(20,706)***	***(4,950)***	***(6,913)***	***(11,033)***	***(13,295)***	***(56,896)***
SIA Funds Available		7,712	7,712	7,712	7,712	7,712	
Revised Shortfall		***(12,994)***	***2,762***	***800***	***(3,321)***	***(5,583)***	***(18,336)***
Projected Fund Balance	$ 63,609	$ 54,014	$ 49,201	$ 43,524	$ 37,284	$ 30,592	
Projected Fund Balance %	9%	8.0%	7.0%	6.0%	5.0%	4.0%	

Scenario 2

Strategy: Scenario 2 is aligned to the current board annual goal to grow the fund balance to 10% by 2025 and maintain it in future years.

Impact: The total reductions needed over the five years is similar to the reductions needed in a few of the other scenarios, $26.9M. However, the fund balance would be the highest in this scenario in 2026 at $76.5M and the district's long term financial health will be maintained if not improved over the time frame. This scenario does have a larger reduction in 2022-23 caused by the use of $16.4M in fund balance in 2021-22 and continuing the reductions into the following year.

The large reductions needed in year 2 make this a less ideal scenario.

	Scenario 2 - Grow fund balance per Goal (in thousands)						
	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Budget Shortfall		$ (30,301)	$ (30,468)	$ (38,245)	$ (49,839)	$ (63,587)	$ (212,440)
Prior Year Identified Reductions		-	13,954	39,436	47,300	59,123	159,813
Fund Balance		16,347	(8,968)	(9,056)	(9,283)	(1,911)	(12,871)
Annual Reductions Needed		***(13,954)***	***(25,482)***	***(7,864)***	***(11,822)***	***(6,376)***	***(65,498)***
SIA Funds Available		7,712	7,712	7,712	7,712	7,712	
Revised Shortfall		***(6,242)***	***(17,770)***	***(153)***	***(4,110)***	***1,336***	***(26,940)***
Projected Fund Balance	$ 63,609	$ 47,262	$ 56,230	$ 65,285	$ 74,569	$ 76,480	
Projected Fund Balance %	9%	7%	8%	9%	10%	10%	

Scenario 2 - REVISED

Strategy: Scenario 2 Revised modifies the original scenario by carrying through 7% in year one and year two and then grows the fund balance to 10% by 2026.

Impact: The total reductions needed over the five years is the highest of the scenarios, $34.4M. However, the fund balance would reach the 10% level as well in this revised scenario at $76.5M and the district's long term financial health will be maintained if not improved over the time frame. This scenario has a higher reduction needed in 2022-23 and requires the largest reductions over the timeline due to using fund balance in the early years which equate to one time funding and require additional reductions in later years.

The higher reductions needed in this scenario make it less ideal than other options.

	Scenario 2 REVISED - 7% Year 1 & 2 and then grow (in thousands)						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Budget Shortfall		$ (30,301)	$ (30,468)	$ (38,245)	$ (49,839)	$ (63,587)	$ (212,440)
Prior Year Identified Reductions		-	13,954	32,407	47,075	58,920	152,356
Fund Balance		16,347	(1,939)	(8,830)	(9,080)	(9,368)	(12,870)
Annual Reductions Needed		***(13,954)***	***(18,453)***	***(14,669)***	***(11,844)***	***(14,036)***	***(72,956)***
SIA Funds Available		7,712	7,712	7,712	7,712	7,712	
Revised Shortfall		***(6,242)***	***(10,741)***	***(6,957)***	***(4,132)***	***(6,324)***	***(34,397)***
Projected Fund Balance	$ 63,609	$ 47,262	$ 49,201	$ 58,032	$ 67,112	$ 76,480	
Projected Fund Balance %	9%	7%	7%	8%	9%	10%	

Scenario 3

Strategy: Scenario 3 reflects a projection showing the outcome of maintaining a 7% fund balance.

Impact: The total reductions needed over the five years is similar to the reductions needed in a few of the other scenarios, $26.4M. However, the fund balance would be relatively flat in this scenario with growth only to achieve the 7% fund balance to revenue ratio. In this scenario the district's long term financial health could be impacted due to the 2% drop from the current 9%. This scenario has a bubble in 2022-23 with the other reductions fluctuating from no reductions to $6M over the window of time.

The lower fund balance makes this a less ideal scenario.

	Scenario 3 - Maintain 7% Fund Balance (in thousands)						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Budget Shortfall		$ (30,301)	$ (30,468)	$ (38,245)	$ (49,839)	$ (63,587)	$ (212,440)
Prior Year Identified Reductions		-	13,954	32,407	39,821	51,260	137,442
Fund Balance		16,347	(1,939)	(1,576)	(1,420)	(1,338)	10,074
Annual Reductions Needed		***(13,954)***	***(18,453)***	***(7,414)***	***(11,439)***	***(13,666)***	***(64,926)***
SIA Funds Available		7,712	7,712	7,712	7,712	7,712	
Revised Shortfall		***(6,242)***	***(10,741)***	***298***	***(3,727)***	***(5,954)***	***(26,366)***
Projected Fund Balance	$ 63,609	$ 47,262	$ 49,201	$ 50,778	$ 52,198	$ 53,536	
Projected Fund Balance %	9%	7%	7%	7%	7%	7%	

Scenario 4

Strategy: Scenario 4 reflects a projection showing the outcome of maintaining a 8% fund balance.

Impact: The total reductions needed over the five years is similar to the reductions needed in a few of the other scenarios, $26.6M. However, the fund balance would be relatively flat in this scenario with growth only to achieve the 8% fund balance to revenue ratio. In this scenario the district's long term financial health would have a better chance of being maintained. This scenario has the largest reductions taken in year 1 with the other reductions fluctuating from no reductions to $6M over the window of time.

The fund balance of 8% which puts us at year 3 of our original plan and maintaining that over the timeframe would help to support our current financial health picture.

	Scenario 4 - Maintain 8% Fund Balance (in thousands)						
	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Budget Shortfall		$ (30,301)	$ (30,468)	$ (38,245)	$ (49,839)	$ (63,587)	$ (212,440)
Prior Year Identified Reductions		-	20,706	32,684	40,046	51,463	144,899
Fund Balance		9,596	(2,216)	(1,802)	(1,623)	(1,529)	2,426
Annual Reductions Needed		***(20,706)***	***(11,979)***	***(7,362)***	***(11,416)***	***(13,654)***	***(65,116)***
SIA Funds Available		7,712	7,712	7,712	7,712	7,712	
Revised Shortfall		***(12,994)***	***(4,267)***	***350***	***(3,705)***	***(5,942)***	***(26,558)***
Projected Fund Balance	$ 63,609	$ 54,014	$ 56,230	$ 58,032	$ 59,655	$ 61,184	
Projected Fund Balance %	9%	8.00%	8.00%	8.00%	8.00%	8.00%	

Scenario Summary and Staff Recommendation

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Scenario 1 Fund Balance	$ 63,609	$ 54,014	$ 49,201	$ 43,524	$ 37,284	$ 30,592	$ (212,440)
	9%	8.0%	7.0%	6.0%	5.0%	4.0%	
Revised Shortfall		***(12,994)***	***2,762***	***800***	***(3,321)***	***(5,583)***	***(18,336)***
Scenario 2 Fund Balance	$ 63,609	$ 47,262	$ 56,230	$ 65,285	$ 74 569	$ 76,480	
	9%	7%	8%	9%	10%	10%	
Revised Shortfall		***(6,242)***	***(17,770)***	***(153)***	***(4,110)***	***1,336***	***(26,940)***
Scenario 2 Alternate	$ 63,609	$ 47,262	$ 49,201	$ 58,032	$ 67,112	$ 76,480	
	9%	7%	7%	8%	9%	10%	
Revised Shortfall		***(6,242)***	***(10,741)***	***(6,957)***	***(4,132)***	***(6,324)***	***(34,397)***
Scenario 3 Fund Balance	$ 63,609	$ 47,262	$ 49,201	$ 50,778	$ 52,198	$ 53,536	
	9%	7%	7%	7%	7%	7%	
Revised Shortfall		***(6,242)***	***(10,741)***	***298***	***(3,727)***	***(5,954)***	***(26,366)***
Staff Recommendation							
Scenario 4 Fund Balance	$ 63,609	$ 54,014	$ 56,230	$ 58,032	$ 59,655	$ 61,184	
	9%	8.00%	8.00%	8.00%	8.00%	8.00%	
Revised Shortfall		***(12,994)***	***(4,267)***	***350***	***(3,705)***	***(5,942)***	***(26,558)***

Staff recommends the district set Board budget goals using scenario 4. This scenario will allow the district to maintain an 8% fund balance as well as address reductions early on due to both the pandemic and declining enrollment. This early attention to the coming shortfall will result in smaller future year shortfalls that may be mitigated with a faster economic recovery and or a higher than projected return for enrollment.

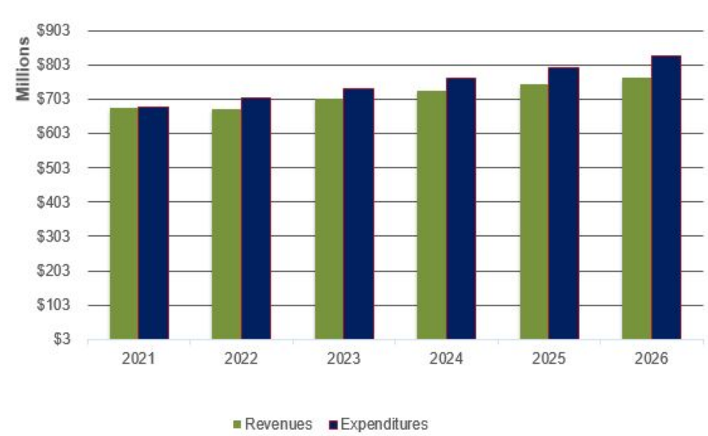
The charts and information included as an addendum on the following pages are intended to provide a more detailed look at the forecasted financial picture of the district.

General Fund - Projection Summary

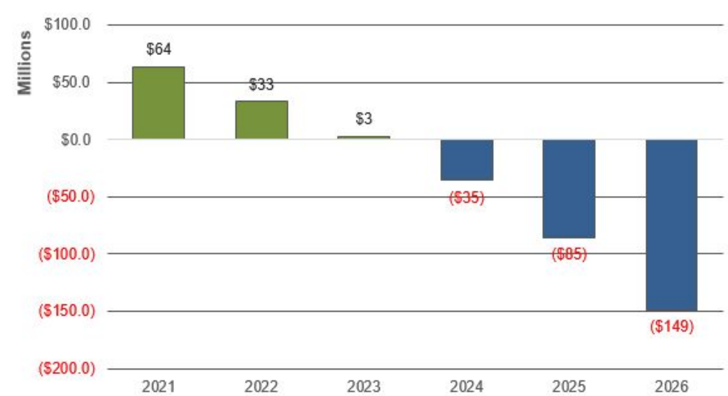
Include Beginning Balances with Revenues? **Select Yes or No** **No**

	Forecast	REVENUE / EXPENDITURE PROJECTIONS									
	2021	2022	% Δ	2023	% Δ	2024	% Δ	2025	% Δ	2026	% Δ
REVENUE											
Local Sources	$396,467,030	$409,318,785	3.24%	$423,051,310	3.35%	$437,301,648	3.37%	$452,089,570	3.38%	$467,435,605	3.39%
Intermediate Sources	$14,026,945	$14,026,855	0.00%	$14,026,855	0.00%	$14,026,855	0.00%	$14,026,855	0.00%	$14,026,855	0.00%
State Sources	$267,979,347	$251,775,919	-6.05%	$265,745,911	5.55%	$274,015,463	3.11%	$279,518,922	2.01%	$283,287,811	1.35%
Federal Sources	$0	$0		$0		$0		$0		$0	
Other Sources	$50,000	$50,000	0.00%	$50,000	0.00%	$50,000	0.00%	$50,000	0.00%	$50,000	0.00%
TOTAL REVENUE	**$678,523,322**	**$675,171,559**	-0.49%	**$702,874,076**	**4.10%**	**$725,393,966**	**3.20%**	**$745,685,347**	**2.80%**	**$764,800,270**	**2.56%**
EXPENDITURES											
Salaries	$372,585,725	$393,017,079	5.48%	$411,847,361	4.79%	$431,097,266	4.67%	$451,032,452	4.62%	$471,474,728	4.53%
Benefits	$183,959,284	$195,137,680	6.08%	$203,256,703	4.16%	$212,920,806	4.75%	$223,449,423	4.94%	$234,406,924	4.90%
All Other	$122,842,850	$117,318,035	-4.50%	$118,237,973	0.78%	$119,620,697	1.17%	$121,042,936	1.19%	$122,505,954	1.21%
TOTAL EXPENDITURES	**$679,387,859**	**$705,472,793**	3.84%	**$733,342,037**	**3.95%**	**$763,638,770**	**4.13%**	**$795,524,811**	**4.18%**	**$828,387,605**	**4.13%**
SURPLUS / DEFICIT	($864,537)	($30,301,234)		($30,467,961)		($38,244,804)		($49,839,464)		($63,587,335)	
BEGINNING FUND BALANCE	$64,473,867	$63,609,330		$33,308,095		$2,840,134		($35,404,670)		($85,244,134)	
PROJECTED YEAR END BALANCE	$63,609,330	$33,308,095		$2,840,134		($35,404,670)		($85,244,134)		($148,831,469)	
FUND BALANCE AS A % OF REVENUE	9%	5%		0%		-5%		-11%		-19%	
FUND BALANCE AS # OF MONTHS OF EXPEND.	1.12	0.57		0.05		(0.56)		(1.29)		(2.16)	

Revenues vs. Expenditures



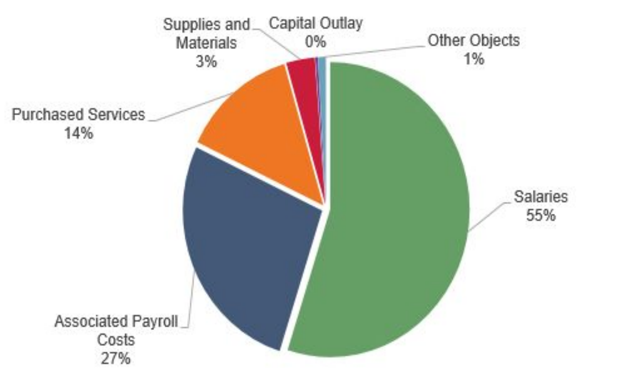
Year End General Fund Balance



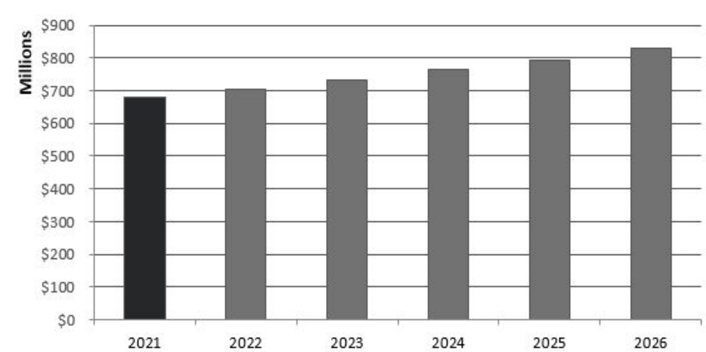
General Fund - Expenditure Analysis

	Forecast	EXPENDITURE PROJECTIONS									
	2021	2022	% Δ	2023	% Δ	2024	% Δ	2025	% Δ	2026	% Δ
Salaries	$372,585,725	$393,017,079	5.48%	$411,847,361	4.79%	$431,097,266	4.67%	$451,032,452	4.62%	$471,474,728	4.53%
Associated Payroll Costs	$183,959,284	$195,137,680	6.08%	$203,256,703	4.16%	$212,920,806	4.75%	$223,449,423	4.94%	$234,406,924	4.90%
TOTAL SALARIES & BENEFITS	**$556,545,009**	**$588,154,758**	5.68%	**$615,104,064**	4.58%	**$644,018,073**	4.70%	**$674,481,875**	4.73%	**$705,881,651**	4.66%
Purchased Services	$90,891,795	$94,618,287	4.10%	$95,432,811	0.86%	$96,708,014	1.34%	$98,020,580	1.36%	$99,371,732	1.38%
Supplies and Materials	$22,516,929	$13,162,275	-41.54%	$13,162,275	0.00%	$13,162,275	0.00%	$13,162,275	0.00%	$13,162,275	0.00%
Capital Outlay	$1,996,420	$1,996,420	0.00%	$1,996,420	0.00%	$1,996,420	0.00%	$1,996,420	0.00%	$1,996,420	0.00%
Other Objects	$6,203,706	$6,307,053	1.67%	$6,412,467	1.67%	$6,519,989	1.68%	$6,629,661	1.68%	$6,741,527	1.69%
Transfers	$1,234,000	$1,234,000	0.00%	$1,234,000	0.00%	$1,234,000	0.00%	$1,234,000	0.00%	$1,234,000	0.00%
Other Uses of Funds	$0	$0		$0		$0		$0		$0	
TOTAL ALL OTHER	**$122,842,850**	**$117,318,035**	-4.50%	**$118,237,973**	0.78%	**$119,620,697**	1.17%	**$121,042,936**	1.19%	**$122,505,954**	1.21%
TOTAL EXPENDITURES	**$679,387,859**	**$705,472,793**	3.84%	**$733,342,037**	3.95%	**$763,638,770**	4.13%	**$795,524,811**	4.18%	**$828,387,605**	4.13%

2021 Forecasted Expenditure Allocation by Object



Expenditure Projection



General Fund - Historical Summary

Include Beginning Balances with Revenues? Select Yes or No → **No**

	ACTUAL REVENUE / EXPENDITURE							Forecast	
	2017	2018	% chg	2019	% chg	2020	% chg	2021	% chg
REVENUE									
Local Sources	$335,625,893	$354,579,206	5.6%	$378,039,427	6.6%	$383,717,187	1.5%	$396,467,030	3.3%
Intermediate Sources	$13,120,580	$13,254,113	1.0%	$13,494,081	1.8%	$13,767,652	2.0%	$14,026,945	1.9%
State Sources	$213,687,766	$244,959,196	14.6%	$230,627,751	-5.9%	$271,619,649	17.8%	$267,979,347	-1.3%
Federal Sources	$7,016	$21,655	208.7%	$79,850	268.7%	$83,522	4.6%	$0	-100.0%
Other Sources	$24,521	$1,047,450	4171.7%	$69,481	-93.4%	$16,748	-75.9%	$50,000	198.5%
TOTAL REVENUE	**$562,465,775**	**$613,861,621**	**9.1%**	**$622,310,590**	**1.4%**	**$669,204,757**	**7.5%**	**$678,523,322**	**1.4%**
EXPENDITURES									
Salaries	$314,778,039	$330,589,350	5.0%	$344,882,655	4.3%	$356,176,462	3.3%	$372,585,725	4.6%
Benefits	$151,382,402	$157,827,552	4.3%	$159,479,329	1.0%	$176,455,508	10.6%	$183,959,284	4.3%
All Other	$114,035,916	$107,267,554	-5.9%	$116,343,333	8.5%	$111,985,822	-3.7%	$122,842,850	9.7%
TOTAL EXPENDITURES	**$580,196,357**	**$595,684,455**	**2.67%**	**$620,705,317**	**4.20%**	**$644,617,792**	**3.85%**	**$679,387,859**	**5.4%**
SURPLUS / DEFICIT	**($17,730,582)**	**$18,177,166**		**$1,605,273**		**$24,586,965**		**($864,537)**	
BEGINNING FUND BALANCE	**$37,835,045**	**$20,104,463**		**$38,281,628**		**$39,886,901**		**$64,473,867**	
YEAR-END FUND BALANCE	**$20,104,463**	**$38,281,628**		**$39,886,901**		**$64,473,867**		**$63,609,330**	
FUND BALANCE AS A % OF REVENUE	**4%**	**6%**		**6%**		**10%**		**9%**	
FUND BALANCE AS # OF MONTHS OF EXPEND.	**0.42**	**0.77**		**0.77**		**1.20**		**1.12**