



PORTLAND PUBLIC SCHOOLS
OFFICE OF DEPUTY SUPERINTENDENT
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To: School Board

From: Claire Hertz, Deputy Superintendent of Business & Operations
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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%	
<i>Revised Shortfall</i>		(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%	
<i>Revised Shortfall</i>		(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%	
<i>Revised Shortfall</i>		(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%	
<i>Revised Shortfall</i>		(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%	
<i>Revised Shortfall</i>		(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