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To the Medford School District 549c Budget Committee:

Since arriving in July 2014, I have been honored and humbled to be the Superintendent of the Medford School District. The School District sits on a solid foundation based on traditions of performance, pride, loyalty and a competitive spirit. The District also has a tradition of good management, community support and fiscal responsibility. The Medford School District is well positioned to become the *Premier School District* in the state of Oregon based on the traditions of the past, excellent support and oversight, and a spirit of innovation based on a vision for the future. We truly believe that all of our students can succeed and should be able to find their place in our District. It is the District's responsibility to meet each student where they are and to mold our instructional program to meet each student's needs.

The Medford School District is fortunate to have a highly qualified teaching staff who bring fresh techniques and innovative ideas with them into the classroom. Our teachers meet regularly in professional learning communities to review student work and to create common assessments, review student results through data analysis and to prescribe tiered interventions based on individual student needs. Our teachers, principals and staff genuinely care about our students and will do whatever is necessary to ensure their success.

I would like to express my appreciation to the members of the Budget Committee and the School Board for your support last year during my first budget cycle at the Medford School District as well as this year as we move forward in an ever changing funding landscape. Last year we set in motion a plan to fully address the District's lower than state average graduation results and mediocre student performance on statewide accountability assessments. In our initial efforts, we focused on short-term solutions as well as to begin systemic changes that should show long term benefits for all students. In the coming year, we will attempt to maintain most of our strategic initiatives while proposing a balanced budget.

Seeing Results: The District is already beginning to see improved results. We were proud to learn in January that our School District was mentioned specifically by the Deputy Superintendent of Public Instruction, Salam Noor, in his media release regarding statewide graduation results, "One school district that saw a significant increase in graduation rates last year was Medford. While graduation rates for large districts tend to change slowly, Medford saw a ten percent one-year increase, going from a 4-year graduation rate of 65 percent in 2013-14 (well-below the statewide average) to 75 percent in 2014-15." Our attendance rates are also continuing to improve and our District enrollment continues to rise with reduced attrition throughout the school year.

Investments for Success in 2015-16: The successes we have enjoyed were founded in putting students first in every decision we make. My budget message last year described a five-year plan to achieve success in attaining our School Board's adopted goals. Last year, we strategically set out to 1) increase class time for students, 2) implement career pathways, 3) expand dual credit and articulated credit offerings and 4) to improve education effectiveness and efficiency. We have taken strides in all four areas this year and momentum is building as we approach the second year of the plan.

This year we first made purposeful strides toward maximizing the amount of time every student spends with a quality teacher. The 2016-17 school year will be the second year of full-day kindergarten and our first opportunity to assess the learning readiness of our first graders after they experienced an expanded learning program. We balanced the class schedule between our two primary high schools by increasing instruction time at one of our high schools. We set higher expectations for high school student class loads and we are observing positive increases in credit acquisition results by our students in 9th and 10th grades which means more students are on track to graduate on time. We launched the Medford After School (MAS) Program at Howard, Roosevelt and Washington elementary schools. Participation at all three of the elementary MAS locations has exceeded expectations with 85 to 90 students per location. Anecdotally, we have observed positive outcomes for most students and will be evaluating student progress when Smarter Balanced results are released in August. We know that the greatest chance to change the trajectory of students' lives and to improve student achievement is to maximize the amount of time a student spends with a highly qualified, highly trained and caring staff.

Our second strategy was to embark on creating connections and affiliation for every student, especially at the secondary level, with focused Pathways. We believe that every high school, and potentially middle school student, should find connections, meaning and understanding in their daily school lives by being involved in a focused Pathway of their choosing based on each student's knowledge, skills, abilities and interests.

Our third strategy was to expand the college-going culture by refining our dual and articulated credit offerings. We are engaged with our post-secondary partners to refine and expand all dual and articulated credit opportunities for students. We believe that every student should experience a college-like experience while in high school by graduating with a college entrance exam score (i.e., ACT score), by having applied to and be accepted to college, and by having the ability to earn college credit or an industry certification while in high school.

Our fourth strategy is to improve education effectiveness and efficiency through greater implementation of technology in the classroom. In the 2014-15 school year, our District made its first large investment into moving from traditional textbooks to more electronic presentation with the purchase of Chromebooks for the secondary English Language Arts (ELA) adoption. In 2016-17, the District proposes to implement Chromebooks for the 2nd-6th grade portion of the K-6 ELA adoption. The Chromebooks purchased this year will also enhance the Math and Science curriculum adoptions in the coming years as well. District educators will be assessing the possibility of implementing open source curriculum in the future.

We have made progress in each of these four areas and will continue to do so. Last year's goals and budget were aligned to make progress toward achieving our Board goals. Our Board goals are:

- 1. Extend student learning beyond proficiency by encouraging ALL students to attain mastery of all Oregon State Academic Standards.**
- 2. Promote a school environment of equity in which ALL students find connections, meaning, and understanding in their daily school experiences.**
- 3. Ensure that each elementary student reads at grade level by the end of 3rd grade.**
- 4. Accelerate the learning for ALL students who perform below grade level, bringing them up to grade level by the end of the school year.**
- 5. Increase the graduation rate (80% by 2017, 90% by 2020).**

In 2015-16, to achieve more positive outcomes for students, we employed a two-pronged approach; first we focused on immediate solutions to improve student performance and graduation rates and secondly, we instituted substantive initiatives that would have more long lasting, systemic effects. To achieve short term results, we focused on a data-driven approach in our high schools by answering these types of questions: How do we know that every student is reaching proficiency? And, how many students are on track to graduate? As an example, we tracked each student's progress toward graduation and provided just-in-time interventions to move more students toward graduating on time.

In the current year, to focus on systemic changes, we made several targeted investments, which were noted in last year's budget message, to allow for future student success. They were:

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| <u>Investment 1:</u> Initiate Medford Prep Program (8.5 Program) | <u>Board Goals 1, 4, 5</u> |
| <u>Investment 2:</u> Launch Project Lead the Way (PLTW) Pre-Engineering & Bio-Medical | <u>Board Goals 2, 5</u> |
| <u>Investment 3:</u> Implement Full-Day Kindergarten at all 14 Elementary Schools | <u>Board Goals 1, 3, 4, 5</u> |
| <u>Investment 4:</u> Insource Extended Day Learning Programs | <u>Board Goals 1, 3, 4</u> |
| <u>Investment 5:</u> Reinstate Parent-Teacher Conferences | <u>Board Goals 1, 3, 4, 5</u> |
| <u>Investment 6:</u> Introduce Bulldogs to Raiders Program | <u>Board Goals 2, 4, 5</u> |

As the summer progressed, we also purposefully and strategically invested in reducing class sizes at the elementary level. We utilized all 9 elementary reserve teaching positions (in the original 2015-16 budget) and added an additional 8.5 elementary positions, through the budget amendment process, for a total of 17.5 additional teachers at the elementary level. These teachers were used to reduce elementary class sizes at various schools and grades across the District. This effort has proven extremely fruitful as teachers and parents feel that our smaller class sizes are allowing teachers to reach every student and provide differentiated instruction and support to maximize student achievement. We have continued to invest in our music and arts programs and expand our career and technical education programs; to promote our college going culture, we invested in having all current juniors take the ACT test.

We know it is important to set lofty goals and equally important to hold ourselves accountable for getting results for students. We plan to take additional steps to improve our graduation rate in the coming years and enhance our graduates' opportunities for post-secondary success. As with any plan, external factors may arise that will cause us to reprioritize the plan. It is prudent to evaluate the results of the plan from time to time and to be flexible enough to modify the plan as necessary. There may be some redirection in the coming year.

Funding Outlook: The primary budgetary risk facing our District in the coming years will be to support an ever increasing compensation cost structure that is outpacing increases in school funding. Because most of our expenses are incurred in personnel costs (approximately 84%), the majority of cost increases are realized in salary and benefits. The greatest financial challenge in the public sector, particularly in education, is in the area of benefits.

It has been well communicated that the Oregon Supreme Court reversed legislative reforms to the Public Employees Retirement System (PERS), primarily those reforms seen in Senate Bill 822 (SB822). This change is expected to increase Medford School District employer contributions to PERS by 20% to 40% (or \$2.2 million to \$4.4 million) per biennium for the years 2017-19, 2019-21 and 2021-23. The November 2015 Milliman PERS Actuarial Report notes the retirement plan is 75% funded as of December 31, 2014. The increase in public employer contributions is necessary to strengthen the retirement system for all current retirees, as well as our current employees who will benefit in years to come. Absent changes at the state level, this action alone brings to the Medford School District the risk of future budget reductions. While the District's PERS rates will remain the same next year, we have been notified there will be a significant increase in the 2017-19 biennium. It is the District's responsibility to plan accordingly for inevitable rate increases. In November 2015, the District set aside roughly \$2.3 million in this fiscal year (2015-16) as a first step toward preparing for the rate increase coming in July of 2017.

Funding for schools has increased at just under 4% per annum on average over the last decade. However, we have been informed by state officials that the combination of what is expected in funding and the expected increase in PERS costs may shrink funds available to support students by 3% to 5% in the next biennium. These factors are important because it is the responsibility of the District to prepare and maintain a budget that meets the needs of our current students while planning for a potentially tenuous financial future.

Lower Reserves and a Balanced Budget: The adopted budget for Fiscal Year 2015-16 included the planned use of a portion of the District's reserves to invest in better student outcomes. After several 2015-16 amendments to the budget, we are currently forecasting a year-end General Fund reserve minimum of 5%. Over the past several years, we strategically spent contingency funds in our Project Reserves and Furniture Replacement Grant funds for items such as kindergarten modular units and musical instruments.

With relatively small reserve balances in place, I will present to you a balanced budget for 2016-17. In order to balance the budget to offset 2015-16 deficit spending of \$4.5 million and to fund \$5.3 million of cost increases including compensation increases (e.g., salaries, medical insurance, PERS contributions) partially offset by \$3.3 million of incremental revenue, we must reduce our spending fiscal year 2016-17 by \$6.5 million. A large portion of this \$6.5 million spending reduction will come from \$4.3 million of reduced transfers to other funds and the remaining \$2.2 million will come from restructuring and cost reductions. In anticipation of expenses exceeding 2016-17 revenues, I have tasked District leadership, with input from the Administrative Council, to generate substantive strategies to operate the District more efficiently and to prioritize services. The plan is as follows:

Revenue in the Second Year of the 2015-17 Biennium: When the Oregon Legislature initially approved funding for schools in the 2015 legislative session, it prescribed funding 50% of the allocation in the first year and the remaining 50% in the second year. Near the end of the session, the legislature increased funding for schools based on positive state economic projections. The extra funds were targeted to the second year of the biennium, which means the Medford School District will receive approximately \$3.3 million, or 2.7%, in additional funding in the General Fund next year compared to this year. However, after subtracting the amount that will be passed through to Medford School District charter schools and the costs of educating additional special education students insourced from SOESD, the net 2016-17 increase is \$2.1 million (or 1.7%). Note - funding for the General Fund in 2015-16 was \$122.5 million compared to the projected funding of \$125.8 million in 2016-17. This funding increase will not cover current year deficit spending, our rising costs and maintain levels of service to students.

Contractual Obligations and Rising Insurance Costs: The Medford School District, like all other school districts, is a people business. The majority of our expenses are incurred in employee costs (i.e., payroll, benefits) which equate to approximately 84% of the District's General Fund budget after charter school pass through funding is excluded. We expect our costs to increase approximately \$5.3 million next year primarily driven by the following General Fund areas:

- Contractual pay increases for employees (\$2.4 million), which include a 2% cost of living adjustment (COLA) in pay for all employees and step increases in pay for all eligible employees.
- Medical expenses are expected to increase next year (\$1.2 million) assuming a 7% growth in cost versus the current trailing twelve-month medical cost increase of over 15.6%.
 - Note - The District will likely choose to market the PacificSource third party administration/cost schedule in hopes of getting cost savings. If this is done, final costs for the 2016-17 healthcare plan year (Oct 2016-Sept 2017) may not be available until July.

- The addition of 11.0 Special Education FTE primarily to support insourcing of Special Education Students from SOESD at a cost of \$0.7 million. This is largely offset by a pass through of additional revenue from SOESD.
- Services, supplies and fees are up \$1.0 million or 4.1%.
 - \$0.475 million due to higher charter school pass through payments due to both higher enrollment and a larger per student allocation from the state
 - \$0.25 million in supplies/fees for students in poverty
 - \$0.17 million for transportation increases
 - \$0.10 million for all other supply service and fee increases

Reduced Transfers Out to Other Funds: Transfers to other funds are reduced by \$4.3 million due to not having to set up a PERS reserve of \$2.3 million, reduced capital spending primarily due to not having to install modular facilities for full-day kindergarten in 2016-17 which cost \$1.7 million, and \$0.3 million less in curriculum spending.

Balancing the Budget: Below are the key proposed restructuring and spending reductions in the General Fund budget saving \$2.2 million:

- Eliminating 7.0 teaching positions in our secondary schools for a savings of \$0.7M annually.
 - 5.0 FTE reduction to better balance class loads across secondary schools
 - 1.0 FTE reduction from the elimination of the 8.5 Transition program
 - 1.0 FTE reduction from the elimination of 0.5 Athletic Director positions at both SMHS and NMHS
- Replacing experienced retiring teachers with newer, less experienced teachers nearer to the bottom of the salary schedule, which is expected to save \$0.5M next year.
- Reducing health care cost increase of \$0.5 million in General Fund, by utilizing \$0.5 million of Insurance Fund Reserves
- Restructuring the Medford After School (MAS) Program including the elimination of 6.0 FTE for an annual savings of \$0.2M.
- Realizing a \$0.2M in total cost savings due to reductions in Worker's Compensation insurance and unemployment premiums next year due to improved processes implemented by our Human Resources Department.
- We expect to see savings of \$0.1M through more efficient use of substitutes as well as better overall management by our District leadership team.

Total Restructuring and Spending Reductions: \$2.2 Million

This budget honors the desire of the community and the principals to maintain a full school-year calendar and to protect lower class sizes at the elementary level by avoiding elementary teacher reductions. This budget also will continue to fund the Bulldogs to Raiders Program and expand the Project Lead The Way initiative. This budget plans for a reduction in the direct costs for the MAS Program, but allows for an external organization to continue the program at a reduced cost.

The proposed budget is a balanced budget and projects the District ending the year with roughly 5% in General Fund reserves, but does not include rebuilding needed reserves for projects, especially for curriculum purchases and expanded utilization of technology. Our priorities in developing a budget are enhancing student achievement and maintaining financial stability. Future budgets will need to continue to build appropriate reserve balances.

Staff and Community Input and Support: District leadership received input from many sources as we prepared this proposed budget. First, we held a budget forum at the District on March 7th. There were eighty (80) people in attendance including members of the school board, teachers, support staff, parents, community partners, and students. The purpose of the meeting was for participants to consider the future of our schools given the complexity of running our District and schools within the current funding environment and considering the rising cost environment in our schools. We also consulted with the Administrative Council on two occasions to gather their feedback regarding budget priorities. The feedback we received during these sessions was invaluable in the development of the proposed budget. As is always the case in operating schools, whether we are considering adding programs or cutting costs, it is important to prioritize our spending to get the best possible outcomes for students. Based on our input sessions, there were two common themes: continue to work to reduce elementary class sizes and continue to provide a variety of connectors for students such as clubs, activities, arts and athletics.

Looking Toward the Future: As I near the end of my second year as the Superintendent and resident of Jackson County and Medford, I foresee a need in the near future for expanded community support for education. It is up to all of us at the Medford School District to utilize every possible resource to maximize student achievement and to meet our goal of an 80% graduation rate by 2017 and 90% by 2020. To reach these goals, it will require the continued and expanded support from all of our stakeholders.

The District is experiencing increased enrollment, partially due to community growth and partially due to growing confidence that our schools are achieving results for students, which causes parents to reconsider public schools as a preferred option. With growth comes the need for expansion. We have a Long Range Facilities Plan that describes in detail the steps we will take to ensure students have an optimal learning environment. The plan starts with boundary adjustments and better utilization of existing facilities before it gets to building new schools. We attend to these options every year as we plan and prepare for each school year. However, I expect a need to build a new school or expand or modify an existing school location within the next five to ten years. The planning for that expansion has already begun and I will look to expand that process to include key stakeholders as we begin the next school year.

As we demonstrate the ability to achieve results for our students, I will be looking to the community to stand with us to support greater results, which may include a future local option tax levy and approval of general obligation bonds to build and/or expand our schools. A local option levy has been passed by many communities in our state including, but not limited to; Portland, Beaverton and Eugene to add more supports to their local schools. I will not ask for a local option levy until we have done all we can do to achieve results within our current funding structure and I pledge to use any additional money from such an initiative to expand services to students.

Proposed Budget Message

This budget proposal has been developed with a *students first* mantra and all options have been considered and analyzed at great length. While we have had to make several strategic spending reductions, we believe this budget proposal outlines the least disruptive option for students and will maintain many of our goals that were implemented in 2014-15 and will keep us on our trajectory to become the *Premier School District* in the state of Oregon!

I respectfully submit this budget proposal.

Thank you for your support.

Brian T. Shumate, Ph.D.

Superintendent