

BUDGET HEARING MINUTES

A Business Meeting of the Springfield School District No. 19 Board of Education was held on January 9, 2025.

I). Welcome & Introductions

Todd Hamilton

Superintendent Todd Hamilton welcomed all those present. Budget Committee members and staff introduced themselves, each sharing their personal background and budgetary committee experience.

Board members and district staff in attendance were Chairman Ken Kohl, Director Jonathan Light, Director Nancy Cameron, Director Heather Quaas-Annsa, Director Hollea Puzio, Director Elaine Doornbus, Superintendent Todd Hamilton, Brett Yancey, Joan Bolls, David Collins, and Andrea Wallace.

Virtually attending: Director Nicole De Graff.

Absent: Director Kelly Mason and Vice Chairman John Svoboda.

Guest speaker: Carol Samuels

II). PERS Presentation & Discussion

Brett Yancey

- Carol Samuels, Managing Director - Piper Sandler

Superintendent Todd Hamilton explained that the district often seeks outside expertise to present economic forecasts and PERS insights, including local legislators to share updates on legislative actions that may impact the district's budget. Hamilton provided a brief overview of the meeting before turning it over to Chief Operations Officer, Brett Yancey. Yancey welcomed Carol Samuels, Managing Director at Piper Sandler, who many consider to be a public finance expert. Samuels began her presentation by offering highlights on Oregon's early and unique budget process and also on the importance of relying upon expert guidance, in regard to the Public Employee Retirement System (PERS). Samuels diligently spent time explaining each calculating formula to the committee.

Additional PERS Topics Discussed:

- PERS Borrowing Complexities and Impact
 - Springfield's borrowing history, including those amounts used to reduce unfunded pension liabilities.
 - PERS costs on average are a third of the payroll, a significant portion, which continues to increase.
 - The process of borrowing from PERS, establishment of side accounts, and the goal of earning more than the borrowing rate.
 - The importance of achieving positive returns on the side accounts to offset the borrowing costs.

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- Springfield's 2005 and 2021 Successful Bond Issuances
 - Low interest rates achieved during the Pandemic led to significant savings to date.
 - Due to the way PERS has accounted for the bond issue, some of the cost increases may lead to future cost increases.
 - Unfunded pension liabilities and how actuaries calculate these liabilities based on various assumptions.

- Complexities of PERS Valuation and Rate-Setting
 - Risks and successes of pension borrowing, noting that many districts have saved money while others have faced challenges.
 - Complexities of rate setting and the use of actuarial models and demographic assumptions.
 - Biennial rate structure and the delay in using Valuation data to set rates. The 2023 Valuation was released in October 2024 and sets the rates for 2025-27.
 - The challenges of predicting future economic conditions and their impact on PERS liabilities.
 - The importance of understanding these complexities, to make informed budgeting decisions.

- Pension System Inefficiencies and Historical Context
 - An outdated system in handling late-breaking news and rate determinations.
 - The use of two to three-year-old data to project rates.
 - The complexity and high cost of changing the current pension system.

- Impact of Not Paying Full Rates
 - Oregon's Investment Council performed well and is praised for paying its pension bills on time, resulting in a higher funding status compared to that of other states.
 - May lead to higher costs later. New Jersey, Illinois, and Alaska were cited as examples.

- Mechanics and Impact of Side Accounts (SAs)
 - Financial benefits saved Springfield over \$30 million.
 - The creation and use of side accounts, which are used to provide a percentage credit against payroll rates.
 - The side account balance is adjusted based on actual investment performance, with rate credits changing with each Valuation.
 - Most side accounts created up to 2008 are set to expire in December 2027, with significant changes expected in the 2025-27 biennium.
 - The impact of payroll growth and investment returns on the side account balance, with a focus on the challenge of maintaining an assumed draw down schedule.

- Challenges of Payroll Growth and Investment Returns
 - The impact of higher-than-expected payroll growth and lower-than-assumed investment returns on the side account balance.
 - Cumulative return of 4% versus an assumed 14%.
 - 2023 Valuation showed a significant discrepancy between the assumed and actual returns, leading to a reduction in rate credits.

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- System-wide growth was more than 20%, nearly 2x assumption. Springfield grew by 18%.
- Resulting in increased FAs and ultimate retirement benefits, as well as excessive drawdowns of SA balances.
- Continued payroll growth above assumption due to Pandemic funding, will further drain SA and may affect both rate credits in 2027-29 and duration of accounts.
- Prioritization of building reserves for the pension fund.

III). 2025 - 26 Budget Process Overview & Discussion

Brett Yancey

Brett Yancey provided a brief outline of the process, emphasizing the importance of full transparency and a time allowance for community involvement. Key metrics include a projected and increased \$10.2 billion state school fund for 2023-25. The district faces challenges such as an 8.5% rate increase on a \$75 million payroll and potential enrollment declines. The State School Fund formula, which considers local revenue, average daily memberships weighted (ADMW), teacher experience, and transportation costs, were also explained.

Additional Budget Process Topics Discussed:

- Understanding the Budget and its Flexibility
 - The importance of full transparency and an allowance of time for community input.
 - The importance of an allowance of time for board members to submit requests for additional information and thorough review of the proposed budget.
 - The budget identifies estimated resources, spending limitations, and unforeseen events, with flexibility for changes throughout the year.
 - Department level management with principals and managers having autonomy over their budgets.
 - The importance of end-year balancing and the role of audits in ensuring accountability and legal compliance.
- State School Fund Formula and Variables
 - Four Key Variables and the Impacts on Funding:
 - Local Revenue
 - Average Daily Memberships Weighted (ADMW), including Individualized Education Plans and English Language Learners
 - Teacher Experience
 - Transportation Grant and its Calculation based on 70% of Eligible Transportation Expenses
- Impact of Governor's Recommended Budget
 - Proposed Budget: 2023-25 State School Fund - \$10.20 billion. 2025-27 State School Proposal - \$11.36 billion. SPS - \$18,328,000 (biennial total), 8.5% rate increase = \$75 million payroll.
 - Impact of the recommended budget, which includes a significant increase in funding for the State School Fund.
 - The increase in funding to be split over the biennium, with specific allocations for each year.

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- Potential impact of inflation, enrollment changes, and collective bargaining on the budget.
- Governor's Investment and Budget Challenges
 - Governor's investment of \$10.20 billion, challenges and projections for the upcoming fiscal year, including historical legislative funding trends, and the impact of enrollment declines.
- Budget Resources and Work Sessions
 - The Budget Handbook, Budget Calendar, and two Work Sessions to be held on February 13th and March 13th.
 - Quarterly reports to the State of Oregon and the challenges of not receiving updates since June.
 - The next update is expected to arrive in February.
- Enrollment Decline and State Funding
 - The anticipation of a 3.6% drop in enrollment, outpacing the state's 0.3% decline, due to students graduating or leaving.
 - An 11% exodus from the state since the COVID-19 pandemic.
 - The state's update delay and the importance of the upcoming February update to be used for planning next year's budget.
 - District enrollment numbers were near to projections, with a slight increase.
 - Preparation of potential final district budget cuts and the importance of accurate payroll and PERS cost data.

The financial team will provide a ten-year table of actual Payroll costs and PERS payments for the district, as well as prepare information on growth percentages across the state. This information will be presented at the next meeting.

IV). Resource Information & Future Meetings

Brett Yancey

- Budget Committee Handbook (e-mailed)
- Budget Calendar (adopted 2025-26)
- Work Session - February 13th at 6:00 p.m.
- Work Session - March 13th at 6:00 p.m.

VII). Adjournment

Committee Members

Having no further business to conduct, the meeting was adjourned at 7:43 p.m.

(Minutes recorded by Trenay Ryan, LCOG)

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