

**MULTNOMAH EDUCATION SERVICE DISTRICT  
SUPERINTENDENT'S BUDGET MESSAGE  
March 16, 2010**

This proposed budget will buy stability. It stabilizes the areas which are most important to the mission of MESD -- supporting the school districts, children and families of our communities. Fiscal stability is problematic in most Oregon education systems, we should not overlook or minimize our accomplishment.

What have not been cut in this proposal are services to children and families, MESD staffing levels, or resolution funds available to our districts. The redesign of our resolution and contract services models last year achieved the goal of stabilizing the purchasing power of districts, maintaining our program capacities to serve children, and keeping the MESD workforce intact.

The financial policies in this proposal also add stability for MESD infrastructure through the next biennium. Monies have been set aside which will have a leveling effect on our insurance, retirement and facilities costs.

We have almost eliminated the cost of outside contractors and systems. We have virtually eliminated the use of outside contractors to support our business, technology, contracting, purchasing and legal services, choosing instead to provide services from within or do without.

Several key indicators show the trends for MESD, and illustrate the efficacy of the financial policies between our current and proposed budget:

- Revenues are decreased by more than \$1 million, and will likely continue to fall
- Expenditures are decreased by three times the amount of revenue decrease
- Fund balances continue to allow deficit spending, but its use has been sharply decreased
- Resolution service funds (local sources) available to districts increased
- Overall staff levels and work schedules remain virtually level

Other key indicators are notable by their absence or by comparison to previous budgets:

- Expenditures for operations have been reduced by more than \$1 million
- We have only been able to modestly increase wages and salaries
- We're not able to fund startup costs for some new initiatives, no matter how promising
- We've eliminated the cost of web-based purchasing and contract management
- Indirect costs are stripped from resolution services and reduced in contract services

While not legal mandates, key MESD financial policies supported by this proposal are:

- Continue to move toward sustainability of the 90/10 split between direct/indirect costs
- Invest in the replacement and maintenance of MESD-owned buildings and contents
- Identified deadlines to reduce our lease expenses by moving out of three facilities
- Set aside monies to mitigate the impact of increasing employer contributions to PERS
- Create a new reserve fund to mitigate the impact of employer costs for insurance

At the transaction level detail this budget is as complex as it has ever been. At the fund level this budget is as clear and concise as any education budget in Oregon. While we have added a new fund, our total of seven funds is as minimal as possible.

We only have three funds which receive revenues. Those revenues and the expenditures associated with them are clearly separated. Resolution Services, Fund 1, accounts for local revenues, which are dedicated for use by our component districts. Contract Services, Fund 2, accounts for revenues generated by contracts from local, state and federal sources. Expenditures within this fund are often on a reimbursement basis and are always controlled by the language in the contracts. Operations, Fund 6, accounts for revenues generated by operations departments and transfers of revenue from Funds 1 and 2. Beginning with the 2009-2010 budget, Fund 6 became our general fund. Sources from Fund 6 are transferred to our other non-revenue-generating funds for specific Board approved purposes.

There are seven funds in the proposed 2010-2011 MESD Budget. Risk Management and PERS Reserve, Fund 7, is a new fund. Following is a brief outline of all funds:

**Resolution Services, Fund 1:**

Revenue in this fund is local revenue as defined by statute, including State School Support Funds and property taxes. These dollars are the basis for providing Resolution Services to our component districts under resolution authority. Resolution authority is defined by statute and requires approval of services by two-thirds of component districts representing a majority of students. Any unexpended funds are carried over for the use of local districts.

**Contracted Services, Fund 2:**

Grant and contract revenue from local, state and federal sources is accounted for in this fund. The majority of these monies come from the Oregon Department of Education (ODE) through grant-in-aid programs. All fund activities are essentially fee-for-service agreements to provide services to component districts and other agencies. Any unexpended funds are carried over but remain in this fund.

**Debt Service, Fund 3:**

This fund accounts for long-term debt. PERS unfunded actuarial liability (UAL) and Certificates of Participation (COP) used to finance construction of Alpha and Arata Creek schools are the only debts. Dollars in this account are transferred from Funds 1,2 and 6.

**Facilities Acquisition and Improvement, Fund 4:**

This fund provides resources for facility acquisition, improvement and maintenance. Revenue is transferred from Fund 6. Unexpended funds are carried over, but remain in the fund to be available for future renovation projects.

**Agency Pass-Through, Fund 5:**

This fund tracks monies for which MESD serves as the fiscal agent. MESD does not contribute to or use these funds. Sample activities are reimbursements through Senate Bill 1149 (energy efficiency initiative) and E-Rate (connectivity discounts for education).

**Operating, Fund 6:**

A portion of revenue in Funds 1 and 2 is transferred to this fund. It supports MESD operations, including Board, Business, Legal, Administration, Technology, Facilities, Communication and Human Resources. Unexpended and funds are unrestricted.

**Risk Management and PERS Reserve (new fund), Fund 7:**

The purpose of this fund is to pay for costs associated with Risk Management activities and PERS costs, including payment of insurance premiums, activities to prevent or minimize exposure or liability and payment for incurred losses. Administration of the fund is assigned to the MESD Risk Management Oversight Committee.

I believe this proposal is an accurate depiction of the budget. I believe it is the most reasonable projection of our fiscal sources and uses. I believe it implements the desires of the Board and utilizes fiscally responsible financial policy.

The budget document and projections are a testament to the diligent efforts of our staff, Cabinet and Board. They worked tirelessly and dedicated an extraordinary amount of time to develop the philosophies supported by this document and the reports it contains.

We have every reason to assume that MESD and the ESD structure in Oregon will look very different after our next legislative session, and we acknowledge that uncertainty. However, the budget for this year and the proposal for next year, and for the 2011-2013 biennium give us as much certainty as possible. We have three simple endeavors, to collectively be able to:

- Understand and accurately project our revenues and expenditures
- Manage our fund balance in the most sensible and sustainable manner
- Fiscally support the highest priorities within our mission and agency

Upon receipt of this proposal, and after receiving public input, the MESD Board, acting as the MESD Budget Committee will approve the document as submitted or revised.

I respectfully submit this proposed budget as a means to those ends.

Ron Hitchcock, MESD Budget Officer  
March 16, 2010