

Date: April 27, 2017

For ACTION

For INFORMATION

Board Agenda: Yes
No

FROM: Michael R. Herbstman, Chief Financial Officer
THROUGH: Alvin L. Crawley, Ed.D., Superintendent of Schools
TO: The Honorable Ramee A. Gentry, Chair, and Members of the Alexandria City School Board
TOPIC: FY 2017 Year-end Combined Funds Budget Estimates

BACKGROUND: Each year, the School Board is presented the following summary that outlines the projected year-end totals for revenue, expenditures and fund balances within the three primary funds (Operating Fund, Grants and Special Projects Fund, and School Nutrition Fund), as well as an analysis of the Health Benefits Fund, Other Post-Employment Benefits (OPEB), and Supplemental Retirement Plan. The School Board's formal approval of the attached year-end estimates authorizes the FY 2017 Revised Budget within each fund.

Throughout the fiscal year, monthly and quarterly financial reports are provided to the School Board on the three primary funds covering school division operations to include budget revisions which can occur for any of the following reasons:

- Encumbered carryover for open purchase orders from the previous fiscal year
- Prepaid items
- Grant carryover funding
- New grant awards
- Programmatic or cost changes
- Account code corrections

In addition, the Comprehensive Annual Financial Report (CAFR) as reviewed by the external auditors is presented to the School Board following the final year-end closeout and financial audit as a final summary of financial activity for the fiscal year.

The reports attached to this memo include a fund statement for each fund as well as detailed reports of revenue and expenditures within each fund. Each report contains the following information:

- The 'FY 2014- FY2016 Actual' columns display the prior year actual revenues and expenditures.

- The 'FY 2017 Revised Budget' column reflects the adjusted budget of record as of March 31, 2017.
- The 'FY 2017 Year-end Estimate' column contains staff projections of year-end revenue and expenditures. These projections are based on actual activity through March 31, 2017, taking into consideration historical trends, encumbrances.

Operating Fund:

The projections for the Operating fund are found in Attachments 1, 2, and 3.

Revenues: The FY 2017 Final Budget included \$246.75 million in revenue, excluding other sources or uses of funds. The FY 2017 Revised Budget reflects a \$2.54 million decrease from the Final Budget attributed primarily due to the Resolution to Transfer FY 2017 Operating Budget Funding to the CIP Budget for the New Elementary School adopted on December 1, 2016. Year-end revenue collections are projected to total \$244.10 million, approximately \$0.10 million less than the revised FY 2017 budget. The following provides a detailed variance analysis as shown in Attachment 2:

- **State revenue:** State funds are projected to be slightly below the FY 2017 revised budget by \$0.04 million.
 - *Tier I – SOQ Accounts* comprise the majority of the State funding, and are projected to be \$36.3 million by year-end, which is slightly less than the revised budget by \$0.05 million due to less sales tax revenue.
 - *Tier II – Incentive Accounts* are projected at the budgeted level.
 - *Tier III – Categorical Accounts* are projected at the budgeted level.
 - *Tier IV – Lottery Funded Accounts* are projected to be nominally above the revised budget by \$0.01 million. This is the result of increased At-Risk funding.
 - *Medicaid Funds* are projected to meet the revised budget total of \$1.35 million, with the majority of these funds expected in the fourth quarter of the fiscal year.
- **Local revenue:** Based on the current collection trend, the local revenue is estimated to total \$0.64 million, \$0.06 million less than the FY 2017 revised budget. This decrease is primarily attributed to a reduced Summer School & Intersession fee collections and reduced Indirect Cost Recovery revenue offset by nominal revenue from Insurance Claim revenues of \$.03 million.
- **Federal revenue:** Historical trends in funding for the ROTC Program suggest year-end revenue of \$0.12 million, which is the same as the FY 2017 revised budget.
- **City appropriation:** The appropriation is projected to be \$204.02 million, which is the same amount approved in the FY 2017 Revised Budget, inclusive of the \$2.54 million reduction/transfer of funding to the Capital Improvement Program budget for the new elementary school.

Expenditures: The FY 2017 Final Budget included \$253.40 million in planned expenditures. The FY 2017 Revised Budget decreases these expenditures to \$252.15 million, accounting for carrying over prior year encumbrances and prepaid items and reducing the budgeted facility lease costs. In addition, budget adjustments and/or corrections also take place throughout the course of the fiscal year which may adjust the Board approved budget by expenditure category.

Year-end operating expenditures are projected to total \$249.36 million, which is a savings of approximately \$2.79 million from the revised FY 2017 Budget.

- Total spending on **salaries** is estimated to be \$160.00 million, which is \$2.1 million less than the FY 2017 Revised Budget. This savings is due primarily to lapse savings from vacancies and turnover, offset partially by overtime and use of intermittent staff, notably in Educational Facilities (custodians) and Pupil Transportation (bus drivers and monitors).
- **Benefits** costs are projected to total \$56.46 million, which is \$0.50 million more than budget. This increase is primarily associated with higher than anticipated hospital/medical plans costs which are projected to be \$0.46 million more than the revised budget..
- Spending in **purchased services** is estimated to total \$13.70 million, approximately \$0.28 million less than the revised budget. The majority of these savings is in the maintenance services and cleaning contracts, and professional services including professional development.
- The **internal services** budget includes the planned cost of printed materials produced by the in-house print shop and budgeted amounts for field trips or other student transportation activities. It also includes funding to purchase lunches for students who forgot their lunch or who do not have sufficient funds on their cafeteria account. These expenditures are allocated back to the other expenditure categories, and should net to zero by the end of year after all activities are posted.
- Expenditures in the **other charges** category are estimated to total \$8.51 million, which is \$0.42 million less than the revised budget. A savings of \$0.22 million on leases and rental and travel related costs account for the primary savings in this category. The FY 2017 Revised Budget and the Year-end Estimate take into consideration the reduction in leasing costs associated with the new elementary school transactions.
- Spending in **materials and supplies** is estimated to total \$7.87 million, which is \$0.31 million less than the revised budget. Major areas of savings in this category include food and food service supplies, educational and recreational supplies, as well as other supplies.
- Expenditures in the **capital outlay** category are for additional or replacement machinery and equipment, furniture, and technology. Year-end estimates total approximately \$2.81 million, which is \$0.14 million less than the revised budget.

Other Financing and Uses of Fund Balance: For the FY 2017 Final Budget, the School Board approved transfers into the Operating fund of \$0.30 million from the E-Rate fund, \$0.25 million from the Medicaid fund and \$2.55 million from the Health Benefits fund. In addition, a transfer of \$1.51 million out of the Operating fund to support for the Virginia Preschool Initiative was also approved. Each of these items is projected to be fulfilled at the budgeted amounts.

Based on the revised revenue and expenditure estimates as outlined above, the anticipated year-end total operating fund balance is projected to be approximately \$11.18 million, and represents approximately 4.5% of the total operating expenditure budget.

Estimates for the fund balance designations are as follows:

- FY 2018 budgeted fund balance: \$5,032,932
- Committed for School Board Reserve: \$5,062,340
- Unassigned (available for FY 2019 and/or other School Board reserves): \$1,089,553

Final fund balance amounts will be available after the annual audit is completed in the fall, following the year-end closeout of FY 2017.

Grants and Special Projects Fund:

The projections for the Grants and Special Projects Fund are found in Attachments 4 and 5.

Revenues: The FY 2017 Final Budget included \$12.18 million in estimated grant and special projects revenue collections. This revenue has increased by \$3.21 million to a total of \$15.38 million in the FY 2017 revised budget. This increase is attributed to the budgeted use of approved carryover funding, primarily from the IDEA - Part B, Title II – Part A, Title I - Part A, and Title I - School Improvement grants.

Year-end revenue collections are projected to total \$14.7 million, which is a shortfall of approximately \$0.7 million from the revised FY 2017 budget due primarily to the federal grants that allow spending over 27 months, which is just over two fiscal years.

- State Funds: State revenue collections for FY 2017 are estimated to total \$4.16 million, approximately \$0.4 million more than the FY 2017 Revised Budget due to higher than anticipated spending on Virginia Preschool Initiative expenditures.
- Local Funds: Year-end local revenue collections for FY 2017 are estimated to total \$1.27 million, slightly lower than the FY 2017 Revised Budget.
- Federal Funds: The estimated revenue for federal awards totals \$9.23 million which is approximately \$2.3 million less than the FY 2017 Revised Budget. This shortfall is due primarily to lower than anticipated spending on the Title I - Part A, Title II - Part A, and Title III - Part A grants. As allowed by the federal rules, ACPS will be able to carry over the unspent balances of these funds into future fiscal years for up to 27 months unless stated otherwise in the grant award.

Expenditures: The FY 2017 Final Budget included \$13.68 million in planned grant and special projects expenditures. Planned expenditures increased to a total of \$18.02 million in the FY 2017 Revised Budget, which is commensurate with the increase in revenues noted above. The estimated year-end expenditures total \$15.65 million, which is approximately \$2.37 million less than the FY 2017 Revised Budget.

Salaries and benefits expenditures comprise approximately 58.3% of the total estimated spending. Materials and supplies is the next largest category and supports the purchase of instructional materials and software for Title I schools to supplement instructional programs across the division. This is followed closely by purchased services which include contracted services as required by Title I - Part A and Title I - School Improvement as well as professional

development services supported by Title II - Part A. In addition, since ACPS serves as the fiscal agent of the Virginia Preschool Initiative (VPI) fund, the 'Other Charges' category includes approximately \$0.63 million that benefit private preschool providers in the City of Alexandria.

Other Sources and Uses of Funds: For the FY 2017 Final Budget, the School Board approved transferring \$0.25 million from the Medicaid fund to the Operating fund, transferring \$0.3 million from the E-Rate fund to the Operating fund, and transferring \$1.58 million into the Grants and Special Projects fund for the Virginia Preschool Initiative. Each of these transfers is projected to be fulfilled at the budgeted amounts.

Fund balance: Based on the revised revenue and expenditure estimates as outlined above, the anticipated year-end balance for the Grants and Special Projects fund is projected to be approximately \$0.90 million. This projected fund balance is comprised primarily of approximately \$0.30 million in the E-Rate fund and \$0.25 million in the Medicaid fund, with the balance in several smaller local and state grants.

The balances within the E-Rate and Medicaid funds are not proposed to be transferred into the Operating fund in FY 2018.

School Nutrition Fund:

The projections for the School Nutrition fund are found in Attachments 6, 7, and 8.

Revenues: The FY 2017 Revised Budget includes \$9.06 million in estimated school nutrition revenue collections. Year-end estimated collections total \$8.41 million, approximately \$0.65 million less than the revised budget.

- **Federal funds:** Federal reimbursements are projected to total \$6.41 million, approximately \$0.68 million less than the FY 2017 Revised Budget. This decrease is driven by slower than anticipated growth in participation.
- **Local funds:** The local funds, which include revenue collections associated with student and staff purchases, as well as catering and contracted services provided by School Nutrition, represent approximately 21.8% of the total year-end School Nutrition Fund revenue, and can vary with economic conditions.

Local funds are projected to be \$1.84 million, which is essentially the same as the revised budget.

- **State funds:** State funds are projected to be slightly more than the revised budget.

Expenditures: The FY 2017 Final Budget included \$10.6 million in planned School Nutrition Fund expenditures. The FY 2017 Revised Budget remains primarily the same. The year-end expenditures are estimated to total \$8.52 million, approximately \$2.08 million less than the FY 2017 revised budget. This projected decrease in expenditures is primarily driven by vacancy and turnover savings in the salaries and benefits accounts, decreased projected spending in the materials and supplies account, delayed capital outlays that were anticipated in FY 2017. Funds will be realigned within the expenditure categories to accommodate additional spending.

Fund Balance: Based on the revised revenue and expenditure estimates as outlined above, the year-end fund balance for the School Nutrition Fund is projected to increase to \$3.89 million.

The School Nutrition Fund is required to maintain a fund balance equal to three months of operating reserves.

Health Benefits Fund:

The projection for the Health Benefits fund is found in Attachment 9.

The Health Benefits fund, an internal service fund authorized and established by the School Board in November 2013, contains the financial activity of the health care programs provided to active ACPS employees and retirees and their families. Premiums charged by the insurance carriers and by ACPS for the self-funded plan are recorded in the fund as revenue during ACPS' semi-monthly payroll process. Payments to insurance carriers for monthly coverage are reflected as expenses in the fund, along with the claims cost and other activity associated with the ACPS self-funded health insurance plan administered by United Healthcare.

Revenues: The year-end analysis projects total revenue for the Health Benefits Fund at \$23.93 million in FY 2017. This includes contributions from ACPS employees and retirees and the School Board. In FY 2016, ACPS employees were granted a one-month premium holiday and saw a reduction in UHC premiums. In FY 2017, these actions are not continued. Projected revenues are projected to be higher than FY 2016 Actual.

Expenses: The projected United Healthcare claims costs show an increase of \$2.48 million (or 16.7%) over FY 2016. This increase is the result of increased medical and prescription claims utilization. Total estimated expenses, including payments for self-insured claims, fully-insured premiums, administrative costs, transitional re-insurance fees, and consulting fees, total \$27.27 million and exceed projected revenues by \$3.34 million.

Other Financing Sources: The School Board authorized a transfer of \$2.55 million from the Health Benefits Fund to the Operating Fund as part of the FY 2017 Budget. That transfer will be made by the end of the fiscal year as planned.

Net Position: The FY 2017 year-end balance in the Health Benefits Fund is projected to be \$5.78 million and covers the following:

- Reserve for Catastrophic Claims: This is equal to roughly two months of annual UHC claims, and is a reserve to cover extraordinary high-cost claims, and equals \$2.90 million.
- Reserve for Premium Stabilization, Affordable Care Act Requirements, and Other Contingencies: This is equal to one month of annual hospital/medical claims and premiums costs, and is a reserve to provide a buffer against unanticipated, significant changes in the health insurance market place, and equals \$1.01 million.
- Designation for FY 2018 Operating Fund: This amount is anticipated as included in the School Board Approved FY 2018 Combined Funds budget and is not projected at this time.

The projected unrestricted portion totals \$1.87 million and can remain in the fund or be designated by the School Board for OPEB to further reduce the OPEB unfunded liability. At this

time, staff recommends these funds remain in the reserve given the sharp increases in expenditures and the anticipation that this trend will continue.

ACPS Supplemental Retirement Plan:

The projection for the Supplemental Retirement Plan is found in Attachment 10.

The ACPS Supplemental Retirement Fund is a single-employer defined benefits pension plan and is fully funded by employee contributions at a rate of 1.5% of compensation. The plan exists for the single purpose of funding retirement benefit payments. Other sources of revenues are the earnings from investment of the plan assets.

As of June 30, 2016, the ACPS Supplemental Retirement Fund was valued at \$114.30 million. This represents a decrease of \$2.94 million compared to June 30, 2015. Year-end estimates for the fund project that the value as of June 30, 2017 are not available at this time. The Investment Advisory Board has put forward a recommendation to shift 5% bonds to real assets to mitigate some of this risk. The annual required contribution (ARC) is \$2.21 million and continues to be met by employee contributions.

This projected decrease in plan value could result in increased contributions in future years.

Other Post-Employment Benefits (OPEB):

As of January 1, 2017, the most recent actuarial valuation date, the actuarial accrued liability for retiree benefits is not yet available.

The annual required contribution (ARC), based on the January 1, 2017 valuation, is \$2.21 million. The ARC is covered through the Board's monthly contribution for retiree healthcare premiums (PayGO) plus the additional amount necessary to fully fund the ARC.

RECOMMENDATIONS:

The Superintendent recommends that the School Board accept the FY 2017 Revised Budget and the FY 2017 Year-end Estimate.

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ATTACHMENTS:

1. FY 2017 Year-end Fund Statement – Operating Fund
2. Operating Fund Revenue Details
3. Operating Fund Expenditure Details
4. FY 2017 Year-end Fund Statement – Grants and Special Projects Fund
5. Grants and Special Projects Fund Revenue and Expense Details
6. FY 2017 Year-end Fund Statement – School Nutrition Fund
7. School Nutrition Fund Revenue Details
8. School Nutrition Fund Expenditure Details
9. FY 2017 Year-end Internal Services Fund Statement – Health Benefits Fund
10. FY 2017 Year-end Fiduciary Fund Statement – ACPS Supplemental Retirement Fund