

Date: November 8, 2013

For ACTION _____

For INFORMATION X

Board Agenda: Yes X
No _____

FROM: Stacey B. Johnson, Chief Financial Officer

THROUGH: Alvin L. Crawley, Ed.D., Interim Superintendent of Schools

TO: The Honorable Karen A. Graf, Chairman, and Members of the Alexandria City School Board

TOPIC: **FY 2015 Fiscal Overview Work Session Materials**

BACKGROUND: Each year, the School Board provides general budget guidance to the Superintendent and staff for development of the capital and operating budgets. The materials attached are intended to provide a preliminary budget outlook including information about the economic/ fiscal climate, major funding sources, budget drivers and key considerations for FY 2015.

This information will be discussed during the November 12, 2013 School Board work session.

RECOMMENDATION: Establish budget guidance for FY 2015.

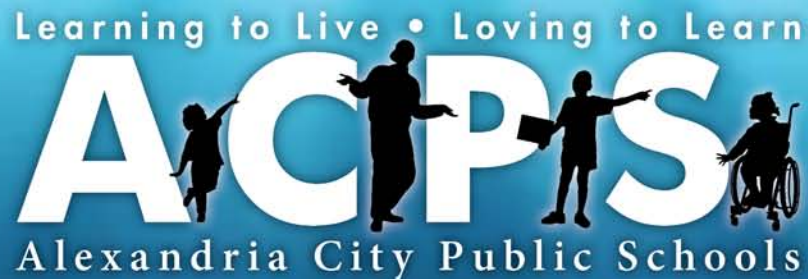
CONTACT PERSON: Stacey Johnson, 703-824-6644

ATTACHMENTS:

1. FY 2015 Fiscal Overview Presentation

Fiscal Year 2015 Budget Outlook

School Board Work Session
Tuesday, November 12, 2013



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Purpose

To provide the School Board and Alexandria community an enhanced understanding of key budget drivers and the fiscal conditions that impact ACPS' budget

To receive the School Board's guidance regarding:

- Capital Improvement Program (CIP) Budget
- Combined Funds Budget
- Fund Balance
- Compensation (salary adjustments/ benefit contributions)
- Budget Policies (budget transfer authority and position control)

Discussion Topics

1. Fiscal Climate and Challenges
2. Capital Improvement Program
3. Combined Funds Budget
4. FY 2015 Budget Drivers
5. Board Budget Policies
6. Key Decisions

Federal Fiscal Climate

- Sequestration, government shutdown, and debt ceiling crisis—less federal funding for K-12 public education
- Entitlement grants are obligated for FY 2014, not yet for FY 2015
- Federal grant funds continue to decline year-over-year for ACPS
- The National School Lunch Program, approximately \$3.6 million in federal reimbursements, may also be at risk

State Fiscal Climate

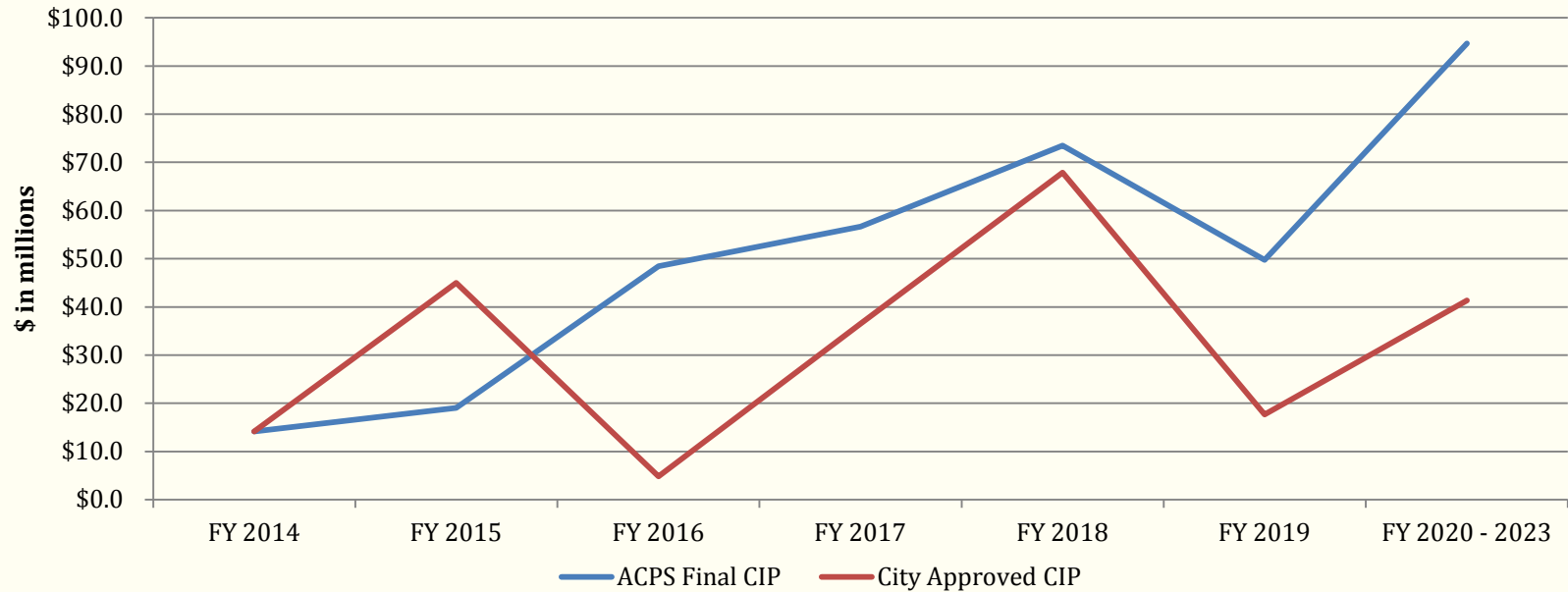
- Virginia economy is showing modest recovery, but will be significantly impacted by federal funding cuts
- Virginia reported annual revenue growth through September (year-to-date) of 2.8%, however sales tax revenue has declined by 4.5%, well below forecasts
- Governor's proposed budget is scheduled for December 2013; may include higher VRS rates and modified funding structure

Local Fiscal Climate

- The City of Alexandria has not yet released revenue projections, but economic trends suggest revenue may not keep pace with program needs; also concerned with federal sequestration
- Residential Real Estate Tax:
 - Fairly stable revenue trends/ housing values have grown slightly over the same period last year
- Commercial Real Estate Tax:
 - Uncertain revenue trends/ office vacancy rates are increasing, currently at approximately 16.2%
- Local Sales and Use Tax:
 - Declining revenue trends/ related to the closure of some grocery stores, down 3% from the same period last year

Capital Improvement Program (CIP)

Capital Improvement Plan Budget, ACPS and City of Alexandria



Capital Improvement Plan (\$ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020 - 2023	Total
ACPS Final CIP	\$14.1	\$19.1	\$48.5	\$56.7	\$73.5	\$49.8	\$94.6	\$356.3
City Approved CIP	\$14.1	\$45.0	\$4.8	\$36.5	\$67.9	\$17.6	\$41.4	\$227.3
Variance, ACPS to City	\$0.0	\$26.0	(\$43.7)	(\$20.2)	(\$5.6)	(\$32.1)	(\$53.3)	(\$128.9)

CIP Challenges

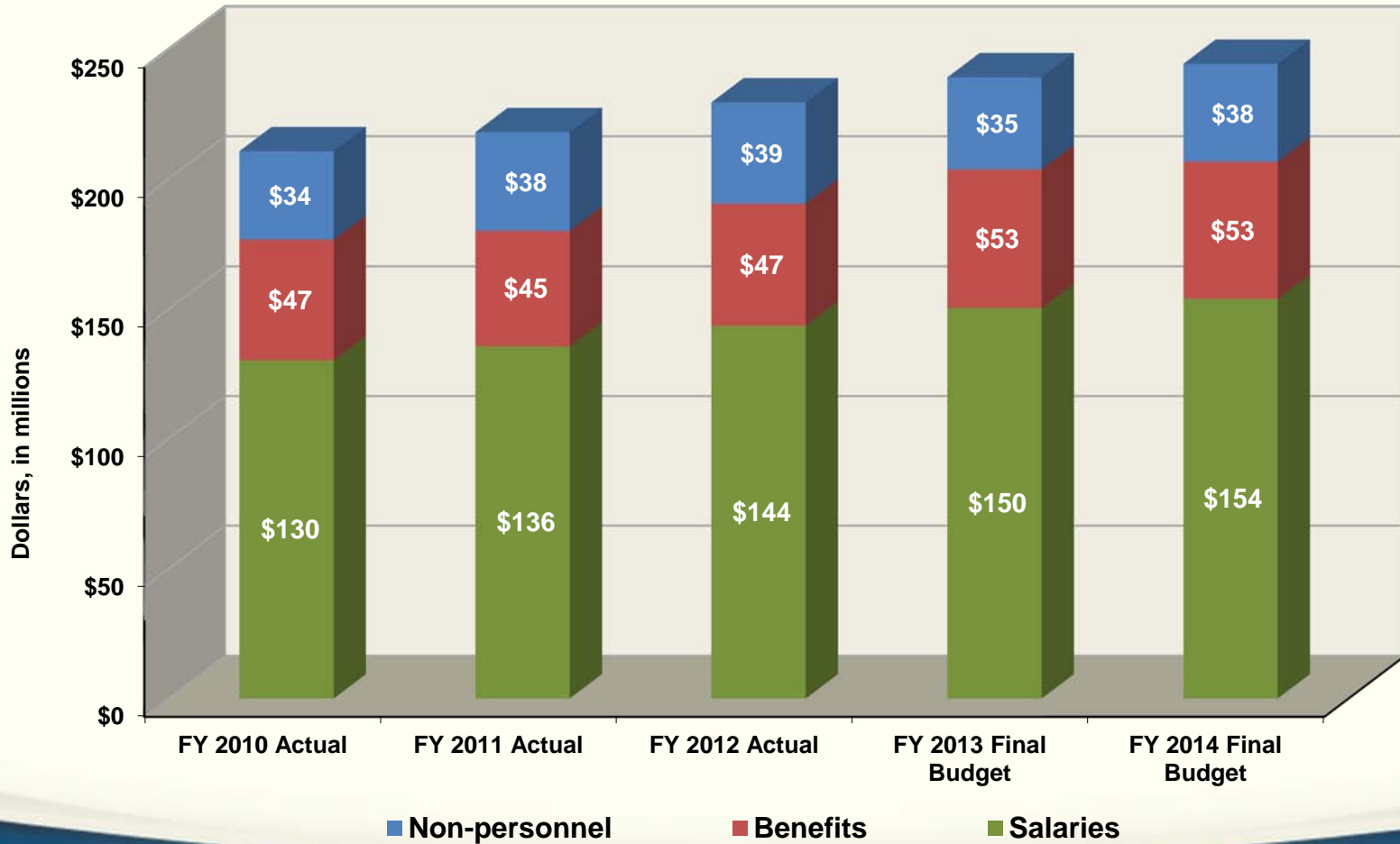
- Closing the funding gap for all capacity and non-capacity projects
- Staffing resources to manage all projects—Central Office Relocation, Jefferson-Houston, Patrick Henry, modular additions, non-capacity projects
- Balancing enrollment growth with capacity, fiscal constraints, and competing City priorities
- Prioritizing the projects deferred to FY 2017 and FY 2018
- Establishing an appropriate level of funding for emergencies, project planning, bus/ vehicle replacement cycles, infrastructure systems

Combined Funds Budget Overview

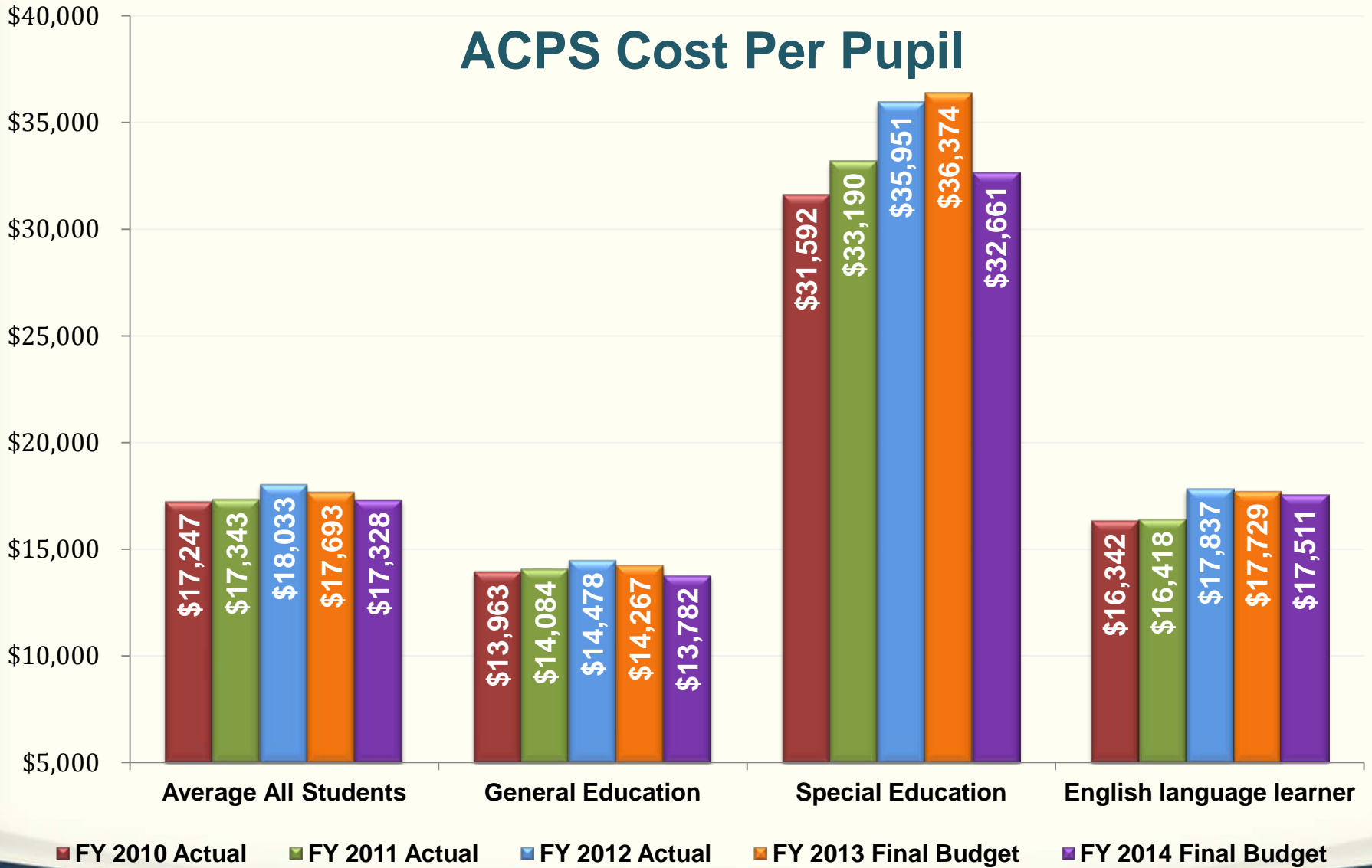
- **Operating Fund FY 2014 Final Budget - \$226.6 million, a 4.0% increase over FY 2013 Final Budget**
- **Grants and Special Projects FY 2014 Final Budget - \$10.7 million, a 25.1% decrease compared to FY 2013 Final Budget**
- **School Nutrition Fund FY 2014 Final Budget - \$7.1 million, a 2.2% increase over FY 2013**

Combined Funds Expenditure Summary

ACPS Combined Funds Expenditures
FY 2010 - FY 2014



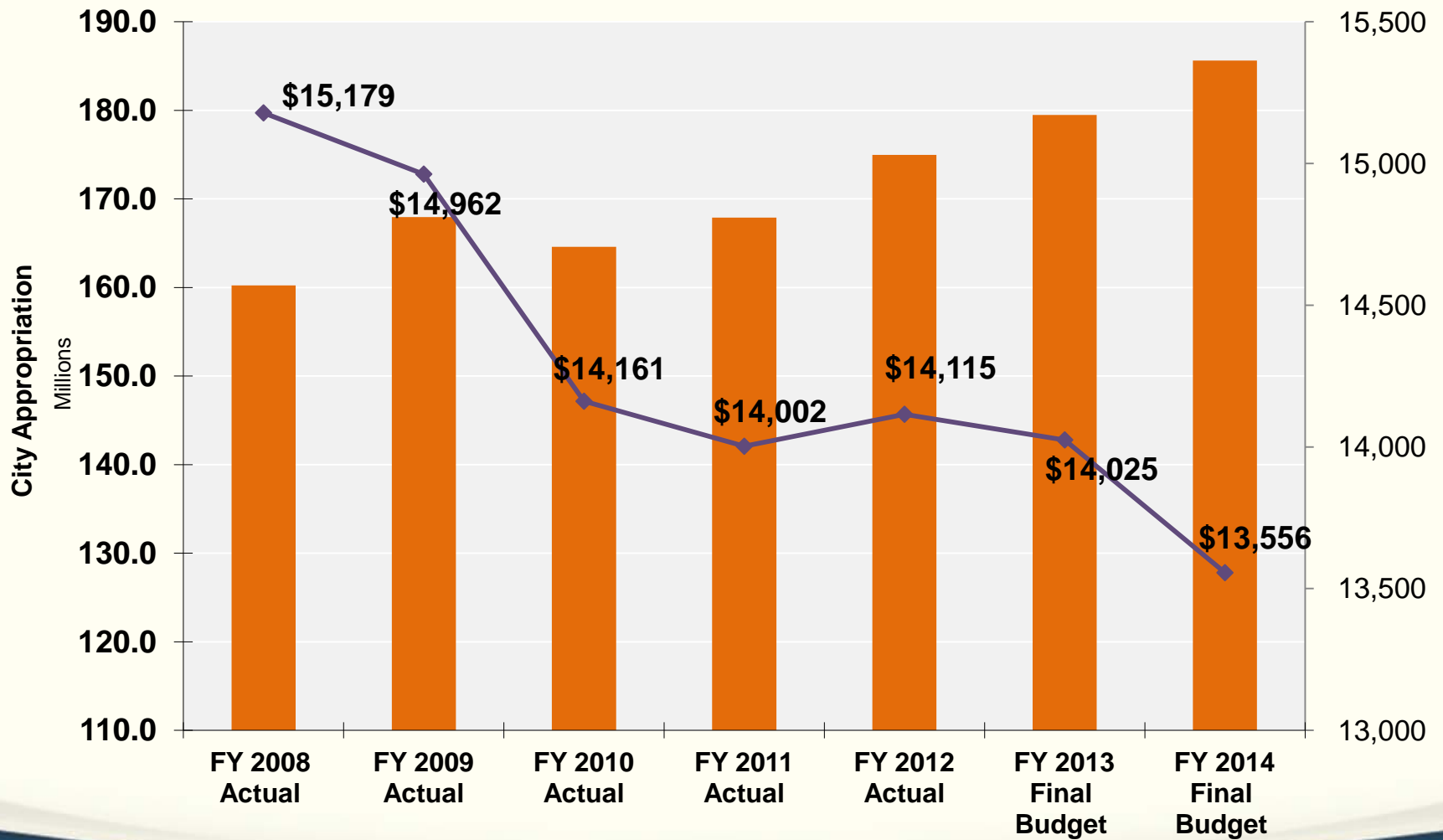
ACPS Cost Per Pupil



City Appropriation

- FY 2014 appropriation totals \$185.6 million, an increase of 3.4% over FY 2013; approximately 80 - 85% of the total operating budget
- The budget guidance for FY 2014 was an appropriation equal to the amount approved by City Council for FY 2013, except to address anticipated changes in student enrollment or changes resulting from cost saving measures employed by ACPS
- City Council Budget guidance for FY 2015 is expected to be approved at the second legislative meeting in November

City Appropriation Per Student



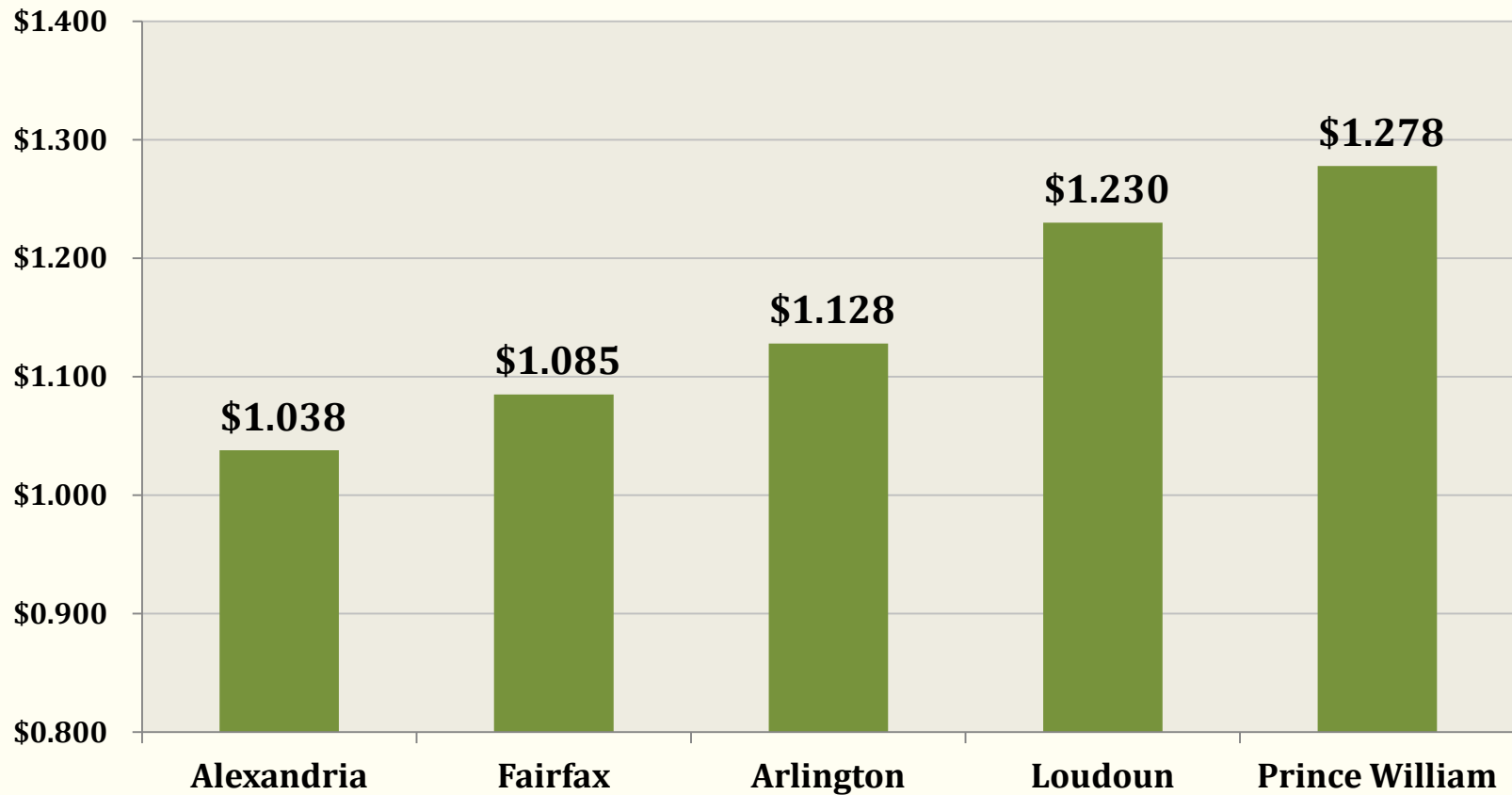
City Appropriation Growth

With projected FY 2015 enrollment of 14,171, the city appropriation needs to increase by 4% to maintain the FY 2014 appropriation per student or by 8% to return to prior year levels.

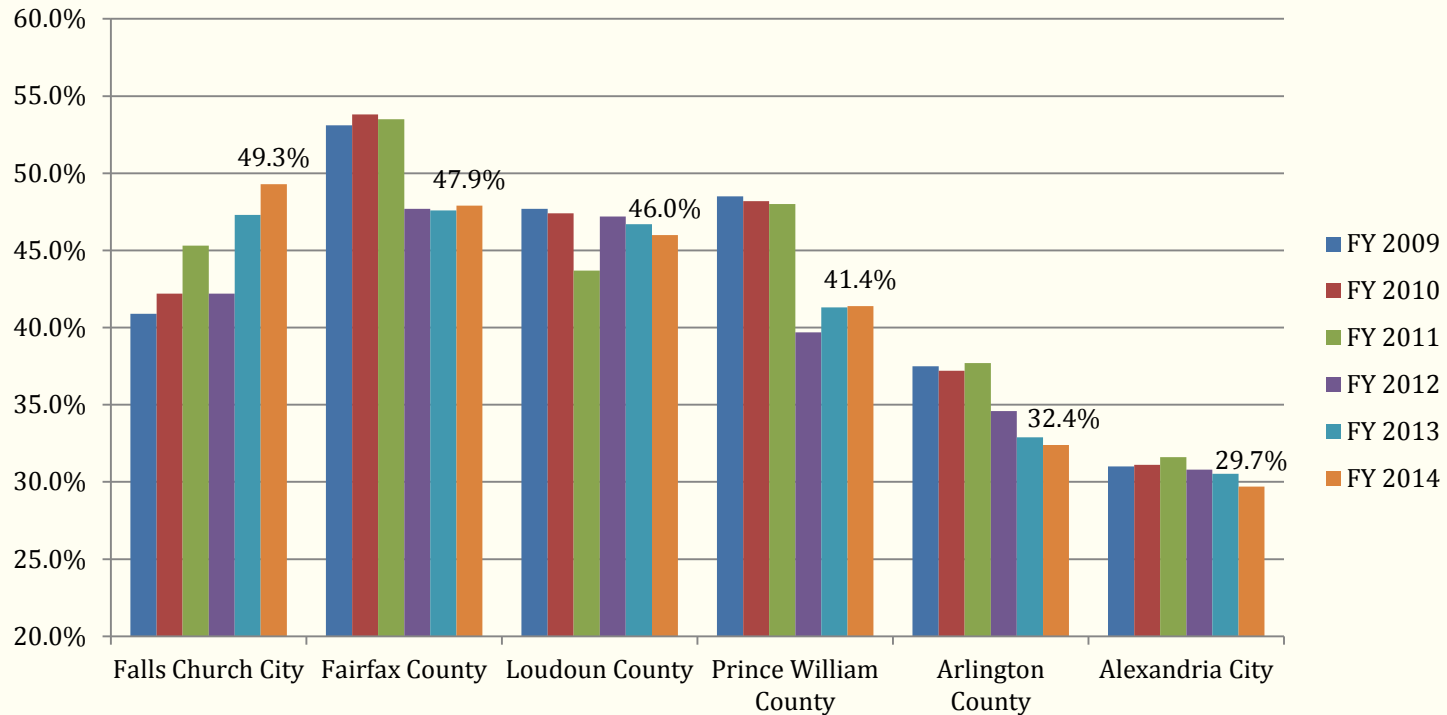
FY 2014	\$ 185,611,472	\$ 13,556
<u>Percent Change</u>	<u>Dollar Growth</u>	<u>Per Student</u>
-2%	\$ (3,712,229)	\$ 12,836
-1%	\$ (1,856,115)	\$ 12,967
0%	\$ -	\$ 13,098
1%	\$ 1,856,115	\$ 13,229
2%	\$ 3,712,229	\$ 13,360
3%	\$ 5,568,344	\$ 13,491
4%	\$ 7,424,459	\$ 13,622
5%	\$ 9,280,574	\$ 13,753
6%	\$ 11,136,688	\$ 13,884
7%	\$ 12,992,803	\$ 14,015
8%	\$ 14,848,918	\$ 14,146
9%	\$ 16,705,032	\$ 14,277
10%	\$ 18,561,147	\$ 14,408

The value of each one-cent on the real property tax rate is approximately \$3.46 million and costs homeowners an additional \$47 per year, on average.

FY 2014 Real Estate Tax Rate (Approved) Cents Per \$100 of Assessed Value



Percentage of Governing Body's General Fund Revenues to Schools



	LCI
Falls Church City	0.8000
Arlington County	0.8000
Alexandria City	0.8000
Fairfax County	0.6789
Loudoun County	0.5666
Prince William County	0.3787

State Revenue

- State revenue is projected to remain flat or slightly decline for FY 2015, even with increasing enrollment, due to sales tax trends and federal funding risks
- The operating budget includes approximately \$32.6 million from State revenue
 - Sales tax represents 42% of State total, or approximately 13.6 million

Federal Grant Awards

- New federal awards totaled approximately
 - \$11.3 million in FY 2012
 - \$8.5 million in FY 2013
 - \$7.0 million in FY 2014
 - Given these trends and the government economic landscape, projecting 20% reduction for FY 2015
- Reductions to Titles I, II, III and Perkins grants will reduce services available to serve students.
- Reductions to IDEA (special education) will necessitate a shift of required expenditures to the operating fund.

Federal Grant Awards

- **Title I** provides funding support for high poverty schools, specifically 17.35 positions that support instruction, including math and reading support, school improvement coaches, interventionists and ELL teachers. In addition, Title I funds the extended day program at Jefferson-Houston, adding an additional 1.65 FTE, instructional supplies, and staff development.
- **Title II** funds professional development efforts by funding a 1.00 FTE Coordinator, the Teachers College Reading and Writing Program and the creation of Master Teacher vignettes.

Federal Grant Awards

- **Title III** supports English language learners, with a 1.00 FTE Division-Wide Parent Liaison and a 1.00 SIOP (Sheltered Instruction Observation Protocol) Instructional Leader, as well as staff development for ELL staff.
- **IDEA** provides support for special education students and staff, including preschool, specifically 22.50 positions, including autism and inclusion specialists, staff development services and instructional supplies.
- The **Carl Perkins** grant provides career and technical education support, including software, technology hardware, equipment and staff development.

Maintenance of Effort

- As a requirement for federal funding, all school divisions must meet the local educational agency (LEA) maintenance of effort (“MOE”) requirement as specified in the following:
 - § 1120(a) and 9521 of the *Elementary and Secondary Education Act* (ESEA) state divisions must expend **at least 90 percent** of the preceding year’s effort from local and state expenditures, including sales tax, either on a total expenditure basis or per pupil expenditure basis.
 - §300.203 *Individuals with Disabilities Education Act* (IDEA) requires school divisions to spend **at least the same amount** of local or local plus state dollars for a current school year on the delivery of special education and related services, as were spent the previous year.

Local Revenue

- Other local revenue is projected to remain flat or slightly decline for FY 2015 and includes
 - fees for community use of school facilities
 - adult education tuition
 - indirect cost recovery (contingent on State-derived IDC rate and levels of federal funding)

Fund Balance

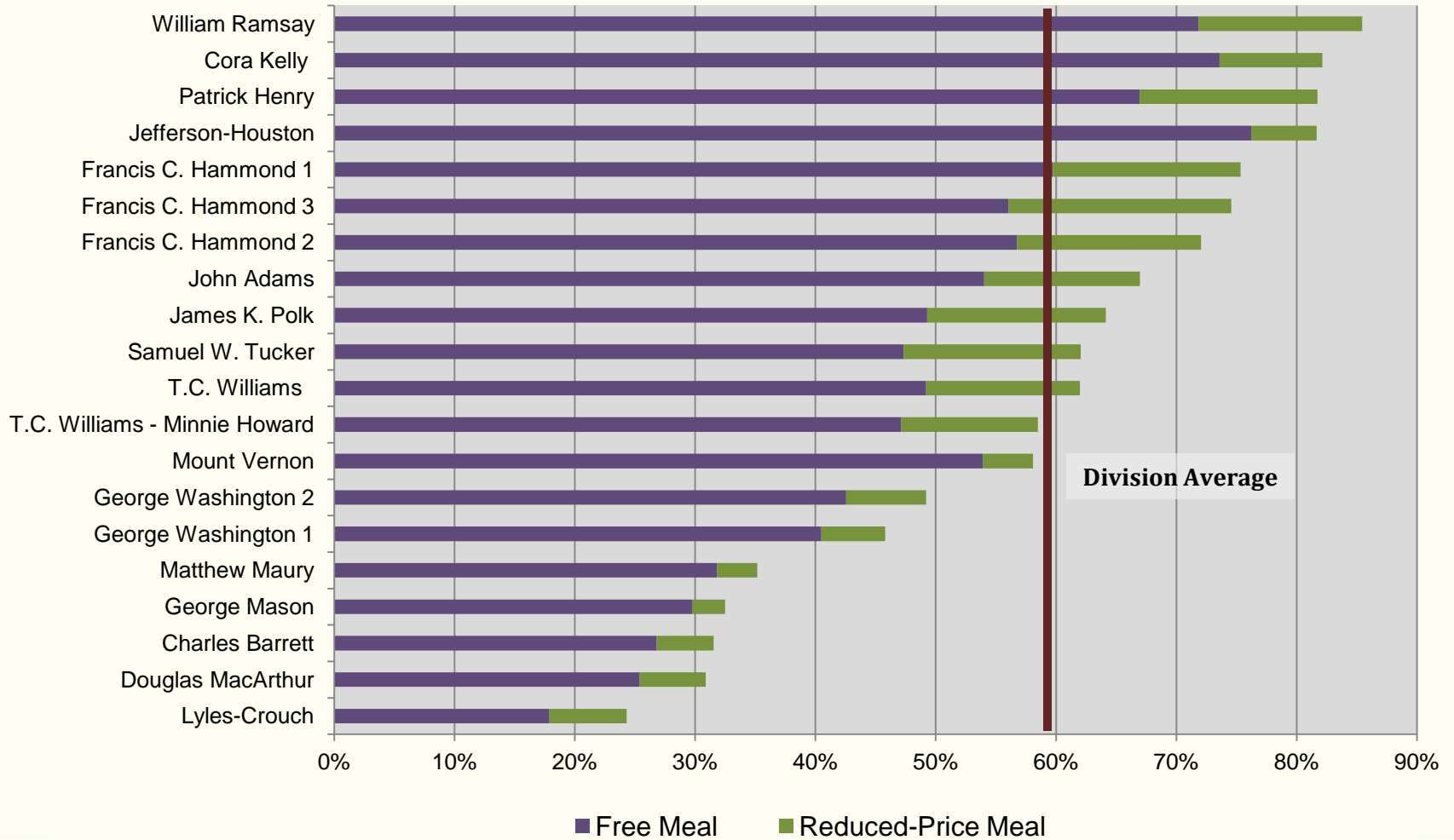
\$4.5 million is available for use in FY 2015; School Board may designate all or part of this funding for a separate, future use or continue past practice of carry-forward to cover general fund expenditures

Fiscal Year	Budgeted Use of Fund Balance
FY 2010	4,355,938
FY 2011	6,647,199
FY 2012	6,985,475
FY 2013	6,778,835
FY 2014	6,669,465
FY 2015	TBD

FY 2015 Budget Drivers

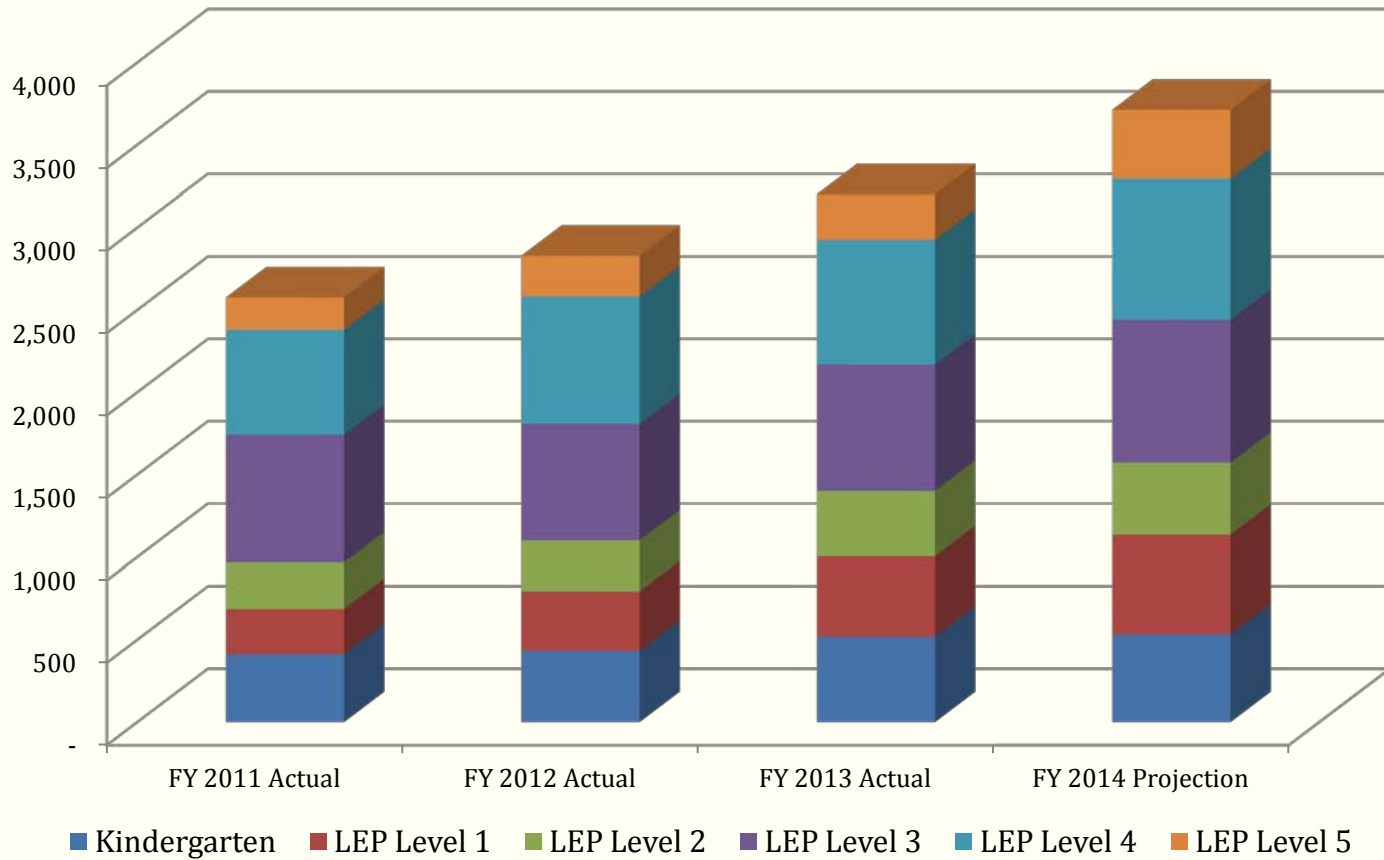
- Projected Enrollment ~ 14,171 students, +548 students, +4.0% growth
- Enrollment-driven Staffing
- Compensation
- Implementation of Board Budget Priorities
- Infrastructure and Risk Management
- Loss of federal funding and maintenance of effort
- Textbook adoption, musical instruments replacements, and technology/hardware

Free and Reduced-Price Meal Eligibility as a Percentage of School Membership October 31, 2013



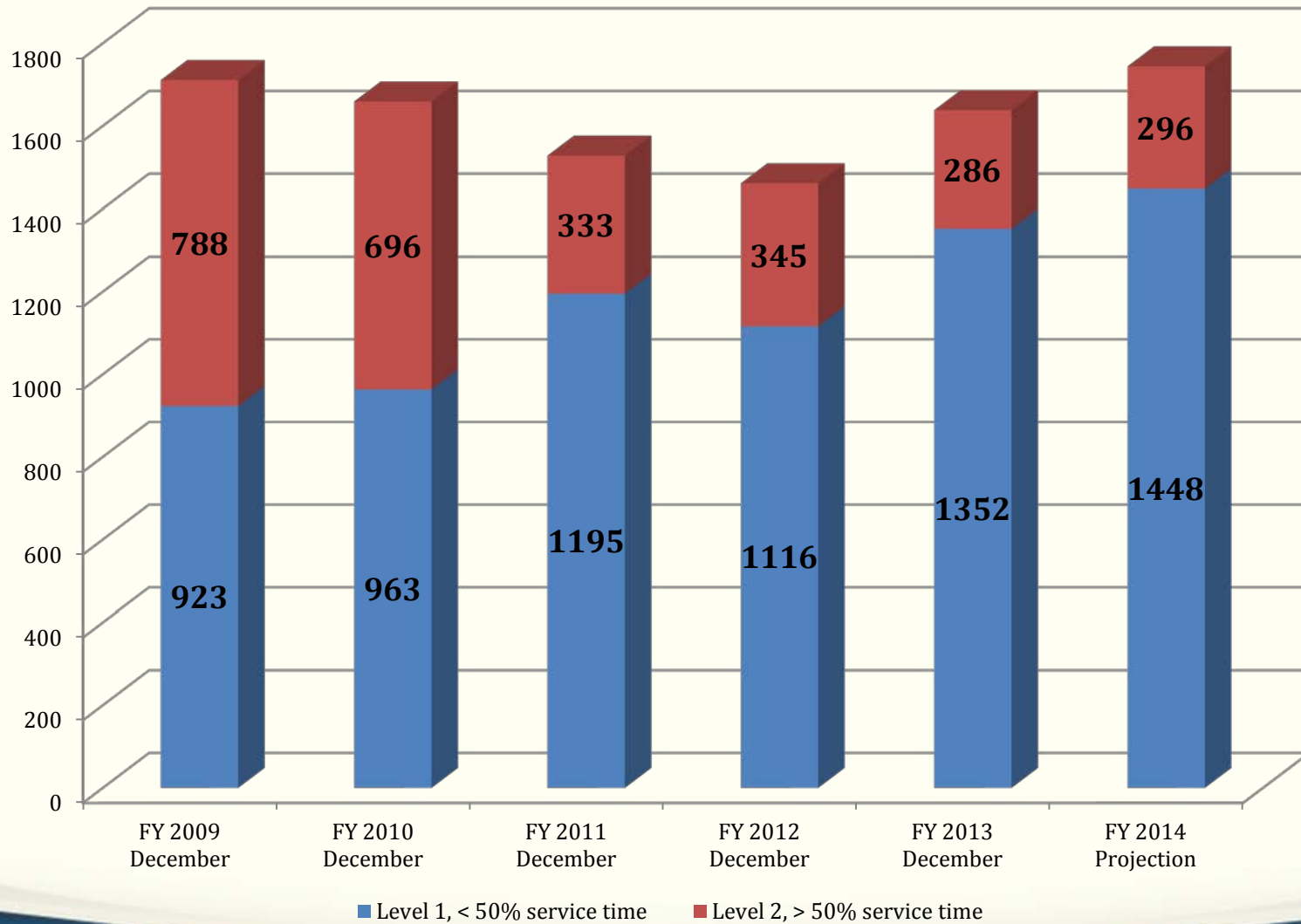
Division Average	Oct. 31, 2009	Oct. 31, 2010	Oct. 31, 2011	Oct. 31, 2012	Oct. 31, 2013
		54%	52%	56%	56%

English Language Learner Enrollment by LEP Level



	FY 2011	FY 2012	FY 2013	FY 2014
ELL Teachers Added by Formula	7.00 FTE	10.00 FTE	0.00 FTE	16.50 FTE

Special Education Level of Service



Compensation

- FY 2014 - Full step increase awarded halfway through the contract year
- FY 2015 – Carry-forward of FY 2014 step increase ~ \$2.5 million
- FY 2015 – Full step, first day ~ \$5.0 million
- Healthcare premiums and employer/ employee cost sharing structure
- Supplemental Retirement Plan and employer/ employee contribution structure

Other Considerations

- Staffing formulas need to be evaluated to ensure they result in adequate service levels and meet SOQ requirements
- Departments are reviewing high-risk areas and will include recommendations to address deficiencies
- Evaluation of classroom textbooks, musical instruments, and technology/hardware replacement cycles
- Division-wide professional learning is necessary to achieve student outcomes

Budget Composition Framework

New Initiatives

New programs or positions specifically focused on improving student and division outcomes

Continuing Enhancements

Existing programs that were implemented to improve instruction and support student growth

Core/ Required Services and Targeted Intervention

Items that are necessary to run a school division, required by law (SOQ), or essential for student achievement

Board Budget Policies

- **Budget Transfers:** Policy DA – Management of funds/ Policy FEG – Supervision of construction
 - Staff authorized to transfer funds up to \$15,000 for operating, grants, and school nutrition (combined funds budget)
 - Superintendent authorized to transfer funds **without limit** for combined funds and up to \$50,000 for CIP capital projects;
 - School Board approval required for budget transfers greater than \$50,000 for CIP capital projects
- **Grants Management:** Grant applications do not require School Board approval. However, specific grantors may require School Board approval for the initial application, such as the federal entitlement grants. Modifications are approved by the Superintendent or designee and the grantor.

Board Budget Policies

- **Position Control:** A position is defined as the authorization to hire an employee eligible for benefits, at a whole or partial full-time equivalent (FTE). Approval of the annual budget by the School Board establishes the maximum number of FTEs and associated expenses, subject to the following permissible changes:
 - Schools and departments are permitted to change budgeted positions, subject to Superintendent approval.
 - All continuing position changes are reported as part of the budget cycle, through the presentation and approval of the subsequent fiscal year's proposed budget.
 - Staffing reserves are approved as a part of the annual budget cycle, uses of reserve for instructional positions are approved by the Superintendent. Uses of reserve for non-instructional positions require School Board approval.
 - Grant-funded positions may be added or modified during the year when additional funding or program changes occur outside of the budget cycle.

Key Decisions/ Actions

1. Provide Capital Improvement Program (CIP) budget guidance—defer to Nov 14
2. Establish guidance and direction regarding the Combined Funds budget
3. Assign the use of fund balance for the purpose of FY 2015 budget development
4. Share philosophy regarding compensation (salary adjustments/ benefit contributions)
5. Confirm understanding of budget policies (position control and budget transfer authority)

Comments or Questions

www.acps.k12.va.us/budgets

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