



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of December 12, 2009**

DATE: December 1, 2009

SUBJECT: Amendments to Schools appropriations for FY 2010 based on closeout of FY 2009

C. M. RECOMMENDATION:

Approve the revised appropriations for various School funds in FY 2010 to reflect the approved School Board resolutions in the FY 2009 Final Fiscal Status Report and appropriate \$24,513,422 from the FY 2009 fund balance to Non-departmental to increase the transfer to the Schools as follows:

Schools Operating Fund:	\$15,362,564
Capital Projects Fund:	\$ 9,150,858

ISSUE: As part of the regular process, County Board authorization is sought for Arlington Public Schools' FY 2010 appropriations based on FY 2009 closeout. No issues have been identified.

SUMMARY: As with County agencies, the Schools require an annual carryover of incomplete capital projects, purchase order obligations, unexpended grant funds and other obligations. The County Board allocated \$24,513,422 in FY 2009 fund balance for Schools when it approved the County closeout report at the November meeting. At that time, the Schools had not finalized the specific allocations by fund. This item is being brought to the County Board in December because Schools' final FY 2009 status report was presented at the School Board's November 5, 2009, meeting. This action will modify appropriations for the Schools budget for FY 2010 to reflect those carryover funds.

DISCUSSION: The Schools carryover amounts are derived from unspent County transfer balances and additional shared tax revenues based on the County/Schools Revenue Sharing Agreement. A portion of these funds (\$2,800,000) was already anticipated by the Schools and included in the FY 2010 Adopted Budget. Additional funds (\$23,153,018) were derived from the final closeout of FY 2009. However, these funds were offset by slightly lower than anticipated revenues received by Schools through the County/Schools Revenue Sharing Agreement (-\$301,116) and the Schools contribution to the County's General Reserve (-\$1,138,480).

County Manager: BMD/mjs

County Attorney: GM

Staff: Richard Stephenson, DMF

26.

Schools have proposed to use the additional funds (in excess of the \$2.8 million already included in the adopted Schools budget) in the following ways:

- General Fund Reserve set-aside (\$9,278,205);
- Capital Project Fund (\$9,150,858) to fund major construction projects;
- School's Other Post Employment Benefits liability (\$131,221) set-aside;
- Contingent to maintain class sizes no larger than recommended maximums (\$845,000) and fund a capacity study (\$98,138);
- Provide seasonal flu shots to all employees (\$110,000);
- Fully fund health insurance costs (\$600,000); and
- Purchase textbooks (\$1,500,000).

The School Board approved the allocation of carryover amounts to various School funds, as detailed in the attached FY 2009 Final Fiscal Status Report on November 5, 2009, requiring revised appropriations for FY 2010.

FISCAL IMPACT: The FY 2010 appropriations for Schools will be revised to reflect the additional carryover amounts from FY 2009.

ARLINGTON PUBLIC SCHOOLS
Department of Finance and Management Services

MEMORANDUM

October 30, 2009

TO: Patrick K. Murphy, Superintendent

THROUGH: Mary Beth Chambers, Asst. Superintendent of Finance and Management Services

FROM: David Blorstad, Director of Finance

SUBJECT: FY 2009 Final Fiscal Status Report

The financial records for the 2008-2009 school year (FY 2009) have been closed and the Annual School Report has been prepared for the State Department of Education. This summary report is prepared for information and Board action as noted. The detailed information by fund is provided below.

School Operating Fund

Appropriation Level – School Operating Fund				
	Budget	Actual	Encumbrances	Variance from Budget
Expenditures	\$355,537,053	\$341,426,461	\$1,157,543	\$12,953,049
Revenue	\$48,206,420	\$48,713,781	\$0	\$507,361
County Transfer	\$307,330,633	\$292,712,680	\$1,157,543	\$13,460,410

In the School Operating Fund, total expenditures were within the appropriated budget; in addition, expenditure savings were greater than expected. In response to revised FY 2009 revenue projections from the County, funds were set aside at closeout of FY 2008 for the projected shortfall. Additionally, actions were taken at mid-year in 2009 to reduce expenditures. Funds from close-out and savings in FY 2009 generated a budget reserve of \$5.6 million in the Operating Fund to cover the expected revenue shortfall.

In addition, because of the timing of the County Board action related to FY 2008 lease purchases, escrowed lease proceeds carried over from that year were used to lease purchase computers in FY 2009, thereby reducing the amount needed for this purpose in FY 2009 by \$2.1 million. Gasoline and diesel fuel expenditures were \$0.5 million below budget due to the major decline in fuel prices in FY 2009. Likewise, utility costs declined, generating \$0.6 million savings in heating fuel costs. This was partially offset by overages in electricity costs in the

amount of \$0.3 million, primarily due to increased electricity usage at the new Washington-Lee High School.

Overtime expenditures in facilities maintenance, custodial services, and transportation were over budget; however these were less than expected due to actions taken to reduce overtime expenditures. The balance of savings in the Operating fund was primarily due to savings in salary and benefit expenditures.

Revenues from sources other than the County Transfer exceeded budgeted amounts in the School Operating Fund (Attachment I). Revenue from the State was \$363,095 higher than budgeted due to increased enrollment which resulted in additional funding in enrollment-driven State revenue accounts. In addition, APS received interest on reserve funds of \$184,430, which were unbudgeted. The interest earnings included \$131,221 in interest on OPEB reserve funds which will be requested to be appropriated as an addition to the OPEB reserve. Local revenue was greater than budgeted by \$144,266, the details of which are included in Attachment I. The expenditure savings combined with the revenue surplus will provide carry forward funds for FY 2010 in the amount of \$13,460,410 from the School Operating Fund. Of this amount, \$2,800,000 was already included in the FY 2010 budget as carry forward and is not available to be appropriated again.

Community Activities Fund

Appropriation Level – Community Activities Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditures	\$13,639,837	\$13,655,297	\$80,059	(\$95,519)
Revenue	\$5,683,624	\$6,006,427	\$0	\$322,803
County Transfer	\$7,956,213	\$7,648,870	\$80,059	\$227,284

Expenditures were over the appropriated budget for the Community Activities Fund by \$95,519. However, program revenue exceeded the budget by \$322,803, resulting in a savings in County Transfer to this fund in the amount of \$227,284. Attachment II details the revenue and expenditures for each of the programs included in the Community Activities Fund. Overall, the Community Activities Fund realized savings of \$227,284 which is available for carry forward to FY 2010.

Cafeteria Fund

Appropriation Level – Cafeteria Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditure	\$6,838,793	\$6,284,173	\$7,459	\$547,161
Revenue	\$5,927,591	\$6,104,603	\$0	\$177,012
County Transfer	\$911,202	\$179,570	\$7,459	\$724,173

In the Cafeteria Fund, FY 2009 revenues and the fund balance were insufficient to cover the direct costs of the program. County Transfer revenue totaling \$111,202 was included in the FY 2009 budget to support this fund, and an additional \$800,000 was set-aside from FY 2008 close-out funds, based upon anticipated increases in food costs. The actual County Transfer required was \$187,029, resulting in a savings of \$724,173 in the County Transfer. Food Services staff has been working diligently to increase sales and decrease costs in this fund. In FY 2009, there were two basic causes of the savings in this fund. First, sales of meals were \$187,468 higher than budgeted, which was partially offset by lower federal and state revenue, resulting in \$177,012 of additional revenue. Second, expenditures for food and supplies were lower than budgeted resulting in savings of \$547,161.

Debt Service Fund

Appropriation Level – Debt Service Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditures	\$33,374,607	\$32,097,012	\$0	\$1,277,595
Revenue	\$0	\$0	\$0	\$0
County Transfer	\$33,374,607	\$32,097,012	\$0	\$1,277,595

The Debt Service Fund savings in the amount of \$1,277,595 were the result of a combination of lower interest rates on the June 2008 bond sale than were estimated when the budget was adopted, and the timing of debt service payments in FY 2009 for the June 2008 bond sale.

Comprehensive Services Act Fund

Appropriation Level – Comprehensive Services Act Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditures	\$3,650,000	\$3,720,307	\$0	(\$70,307)
Revenue	\$1,842,500	\$1,825,505	\$0	(\$16,995)
County Transfer	\$1,807,500	\$1,894,802	\$0	(\$87,302)

Expenditure overages of \$70,307 in the CSA Fund were the result of higher than anticipated mandated expenditures. Additionally, the State reimburses 55% of actual costs, excluding transportation expenditures. State revenue was \$16,995 below the budgeted amount. The net effect of these two items is that an additional \$87,302 was required in County Transfer in the Comprehensive Services Act Fund.

Capital Projects Fund

Appropriation Level – Capital Projects Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditures	\$16,324,370	\$2,278,489	\$3,639,133	\$10,406,748
Revenue	\$597,922	\$542,032	\$0	(\$55,890)
County Transfer	\$15,726,448	\$1,736,457	\$3,639,133	\$10,350,858

Due to long-term planning and implementation cycles, Capital Projects funds were not fully obligated by the end of FY 2009. As a result, \$10,406,748 remains in the expenditures. These funds, less \$55,890 in revenue from sources other than County transfer brings the total balance in the Capital Projects Fund to \$10,350,858. At mid year FY 2009, \$1,200,000 was designated as a budget reserve in anticipation of a shortfall in County tax revenue. The breakdown of the \$10,350,858 balance is as follows:

Minor Construction/Major Maintenance (MCOMM)	\$1,902,344
Major Construction	\$7,248,514

Budget Reserve created at mid-year
Total

\$1,200,000
\$10,350,858

Summary of Closeout of the FY 2009 Appropriated School Board Budget

In the six funds requiring a County transfer, expenditure savings and excess revenues from sources other than County transfer resulted in a total of **\$25,953,018** in unobligated County transfer. The FY 2010 School Operating Budget included carry forward funding in the amount of \$2,800,000 which was the projected savings from FY 2009.

The budget savings available from FY 2009 totals \$23,153,018 as outlined below:

School Operating Fund	\$13,460,410
Community Activities Fund	\$227,284
Cafeteria Fund	\$724,173
Debt Service Fund	\$1,277,595
CSA Fund	(\$87,302)
Capital Projects Fund	<u>\$10,350,858</u>
Total Savings	\$25,953,018
Less: Adopted Budget Carry Forward from FY 2009	<u>\$(2,800,000)</u>
Budget Savings Available at 06/30/09	\$23,153,018

Additional Tax Revenue due to APS for FY 2009

Under the Revenue Sharing Agreement between the County and Arlington Public Schools (APS), APS was entitled to 48.1% of net local tax revenue in FY 2009. The School Board's FY 2010 Adopted Budget includes no additional FY 2009 re-estimated revenue. The actual amount of re-estimated revenue due to APS for FY 2009 is a decrease of (\$301,116) as outlined in the County Closeout Report. As in prior years, the County closeout amount of (\$301,116) to the Schools was adjusted by the amount required to be set aside to meet the 3.25% General Fund reserve (up from 3.0% in FY 2008) to which the Schools contribute. As a result, the Schools are contributing \$1,138,480 from closeout to the General Fund reserve. The decrease in revenue, combined with the required contribution to the General Fund reserve, results in a decrease in the County transfer to the Schools in FY 2009 of (\$1,439,596).

Use of Budget Savings Offset by Reduction in County Revenue

The budget savings and reduction of County revenue provide a total of \$21,713,422 from FY 2009 available to be used in FY 2010. Staff recommends the following uses of these funds:

Capital Projects Fund **\$9,150,858**

To provide continuity to the planning and implementation cycles of the construction projects in the Capital Projects Fund, it is recommended that construction funds available in the Capital Projects Fund at the end of FY 2009 be re-appropriated to the Capital Projects Fund in FY 2010 excluding the funds set aside at mid year as a budget reserve (\$1,200,000) which are included below in the General Fund Reserve.

OPEB Reserve **\$131,221**

Interest earnings on funds set aside in the OPEB Reserve are recommended to be appropriated as an addition to the OPEB Reserve balance. This will make the OPEB Reserve balance \$3,731,221 as of 6/30/09.

Staff Contingency Accounts **\$845,000**

Because of changes in enrollment and staff's commitment to keeping class sizes no larger than the recommended maximum, a net total of 22.74 teachers and 16.0 assistants were added above the positions allocated in the budget. These funds are required to cover the overages in the staff contingency accounts.

Capacity Consultant **\$98,138**

Funds are provided for the contract awarded to MGT Consulting Services to conduct a capacity study for the School Board.

Flu Shots **\$110,000**

The School Board is funding seasonal flu shots for all employees.

Health Insurance **\$600,000**

The cost of health insurance for both employees and the School Board is increasing as of January 1, 2010. These funds represent an estimate of APS' share of the increase from January 1 through June 30.

Textbooks **\$1,500,000**

The Virginia K-12 Social Studies Standards of Learning have been revised with testing of the new standards to begin in Spring 2011. While the secondary Social Studies textbooks (Grades 6-12) were adopted by the School Board last year, there were no adopted funds in the budget to purchase the books. There was no adoption of elementary materials. Staff recommends APS adopt elementary Social Studies textbooks and purchase the Social Studies textbooks for K-12, including electives and AP courses. As part of the adoption and purchase staff will identify ways to reduce costs through electronic and other alternatives to printed materials.

Sub-Total **\$12,435,217**

Remaining Funds – General Reserve **\$9,278,205**

County staff currently estimates a revenue shortfall in the County transfer to the Schools in FY 2010 of \$11.1 million. While the State estimates of a shortfall in revenue for this year to APS of \$1.5 million, they are also proposing a VRS holiday, which could generate savings this year of approximately \$8.5 million. If the total revenue shortfall and the VRS holiday hold true, APS

could have a net shortfall of \$4.1 million in FY 2010. However, while we may have a VRS holiday in FY 2010, it is most likely that the VRS premiums will increase in FY 2011, adding to our projected shortfall in FY 2011. Staff is recommending that the remaining funds from close-out be placed in a General Reserve to offset any shortfalls in FY 2010 and, if possible, to offset any shortfalls in FY 2011. In addition, the Superintendent has put into place cost saving measures in FY 2010 which should generate additional savings to help with any further shortfalls.

Total	\$21,713,422
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Summary of Proposed Uses of Budget Savings and Additional County Revenue by Fund

School Operating Fund	\$12,562,564
Capital Projects Fund	<u>\$9,150,858</u>
Total	\$21,713,422

RECOMMENDED RESOLUTIONS:

1. To carry forward funds remaining from FY 2009 to FY 2010, it is recommended that the School Board adopt the following resolution:

The School Board requests the appropriation of \$12,562,564 to the School Operating Fund and \$9,150,858 to the Capital Projects Fund, which represents the combination of budget savings from FY 2009 in the amount of \$23,153,018 and the reduction in local tax revenue from FY 2009 in the amount of \$301,116, and the contribution to the County's General Reserve of \$1,138,480.

The School Board also requests an increase in the FY 2010 County Transfer of \$15,362,564 to the School Operating Fund and \$9,150,858 to the Capital Projects Fund. This includes the budget savings of \$23,153,018 from FY 2009, less the reduction in local tax revenue (\$301,116) and the contribution to the County's General Reserve (\$1,138,480) plus the budget savings of \$2,800,000 that was included in the FY 2010 Adopted Budget.

2. To provide for the purchase orders encumbered as of June 30, 2009 that will be paid in FY 2010, it is recommended that the School Board adopt the following resolution:

The School Board requests the re-appropriation of purchase order encumbrances and budget increases to the FY 2010 Schools Budget as indicated below:

School Operating Fund	\$1,157,543
Capital Projects Fund	\$3,639,133
Community Activities Fund	\$80,059
Cafeteria Fund	\$7,459

3. In order to continue the special projects and construction projects in which the budget period does not coincide with the school year, it is recommended that the School Board adopt the following resolution:

The School Board requests the re-appropriation to FY 2010 of the unobligated balances of both the Grant and Restricted Programs Fund and the Bond Construction Fund.

4. In order to retain the current \$2,000,000 Reserve Fund balance and the current \$3,731,221 Other Post Employment Benefits (OPEB) Reserve it is recommended that the School Board adopt the following resolution:

The School Board requests the carry forward and re-appropriation of the \$2,000,000 Reserve fund balance and the \$3,731,221 OPEB Reserve balance from FY 2009 to FY 2010.