



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of December 11, 2010**

DATE: November 12, 2010

SUBJECT: Amendments to Schools appropriations for FY 2011 based on closeout of FY 2010

C. M. RECOMMENDATION:

Approve the revised appropriations for various School funds in FY 2011 to reflect the approved School Board resolutions in the FY 2010 Final Fiscal Status Report and appropriate \$33,218,860 from the FY 2010 fund balance to Non-departmental to increase the transfer to the Schools as follows:

Schools Operating Fund:	\$31,569,775
Capital Projects Fund:	<u>\$ 1,649,085</u>
Total	\$33,218,860

ISSUE: As part of the regular process, County Board authorization is sought for Arlington Public Schools' FY 2011 appropriations based on FY 2010 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 \$33,218,860 in FY 2010 fund balance for Schools when it approved the County closeout report at the October 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 2010 status report was acted upon by the School Board at its December 2, 2010, meeting. This action will modify appropriations for the Schools budget for FY 2011 to reflect those carryover funds.

DISCUSSION: The Schools carryover amount (\$33,218,860) is derived from unspent County transfer balances and additional shared tax revenues based on the County/Schools Revenue Sharing Agreement. Funds (\$33,707,215) were derived from budget savings in FY 2010, and additional revenues (\$1,207,274) received by Schools through the County/Schools Revenue Sharing Agreement. The total carryover amount is offset by the Schools contribution to the

County Manager:

BMD/mjs

County Attorney:

[Signature]

Staff: Richard Stephenson, DMF

22.

County's General Reserve (-\$1,695,629). [Note: A portion of these FY 2010 carryover funds (\$3,500,000) was anticipated by the Schools and included in the APS FY 2011 Adopted Expenditure Budget.]

The APS Superintendent proposed to use the additional funds in the following ways:

- Capital Project Fund (\$1,649,085) to fund major construction projects;
- School's Other Post Employment Benefits liability (\$85,596) set-aside;
- Additional funds for FY 2011 needs (\$3,410,000)
- Contingent to maintain class sizes no larger than recommended maximums (\$1,979,179);
- Reserve to offset Increases in FY 2012 related to OPEB, debt service, textbooks, furniture and equipment (\$3,945,000);
- Reserve for unfunded liabilities (\$7,650,000)
- Reserve for future debt service obligations (\$7,000,000)
- General Fund Reserve (\$4,000,000)

The School Board approved the allocation of carryover amounts to various School funds, as detailed in the attached FY 2010 Final Fiscal Status Report, on December 2, 2010 requiring revised appropriations for FY 2011.

FISCAL IMPACT: The County's FY 2011 appropriations for Schools will be revised to reflect the stated carryover amounts from FY 2010.

ARLINGTON PUBLIC SCHOOLS
Department of Finance and Management Services

MEMORANDUM

November 5, 2010

TO: Patrick K. Murphy, Superintendent

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

FROM: David Blorstad, Director of Finance

SUBJECT: FY 2010 Final Fiscal Status Report

The financial records for the 2009-2010 school year (FY 2010) 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	\$369,278,078	\$340,547,756	\$2,900,963	\$25,829,359
Revenue	\$47,997,223	\$50,047,158	\$0	\$2,049,935
County Transfer	\$321,280,855	\$290,500,598	\$2,900.963	\$27,879,294

In the School Operating Fund, total expenditures were within the appropriated budget; in addition, expenditure savings were greater than expected. Savings were realized in VRS retirement payments primarily due to the 'holiday' in payments for the 4th quarter of FY 2010 (\$8.0 million) as well as in health insurance costs of \$3.5 million. Electricity was also below budget by \$1.7 million as energy costs abated from the high levels of the previous year. Additionally, due to the economic uncertainties that were present during FY 2010, a Budget Reserve of \$14.1 million (\$3.4 million reserve in the Adopted FY 2010 budget, \$9.3 million carryover from FY 2009 and \$1.4 million in reductions implemented in FY 2010) was created in order to cover anticipated revenue shortfalls in FY 2010 from both State and County sources. Savings of \$0.6 million were also realized in capital lease payments as the timing of the leasing transactions caused only one six-month payment to fall within FY 2010.

Revenues from sources other than the County Transfer exceeded budgeted amounts in the School Operating Fund (Attachment I). Revenue from the State was \$2,736,698 lower than

budgeted due to budget cuts enacted by the General Assembly during the fiscal year. In addition, APS received interest on reserve funds of \$137,240, which were unbudgeted. The interest earnings included \$85,596 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 \$4,786,633, which includes \$1,482,910 of Bond Premium and \$3,132,234 of Lease Proceeds, both of which are unbudgeted. The Bond Premium was received related to our G.O. Bond issuance in FY 2010 which was highly sought after by investors, thus generating a premium. The Lease Proceeds were received when APS entered into leases for the purchase of replacement computers. These proceeds were used to purchase computers, for a net effect of \$0 to APS. The details of Local Revenue are included in Attachment I. The expenditure savings combined with the revenue surplus will provide carry forward funds for FY 2011 in the amount of \$27,879,294 from the School Operating Fund. Of this amount, \$3.5 million was already included in the FY 2011 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	\$14,238,406	\$13,650,581	\$98,824	\$489,001
Revenue	\$6,405,135	\$6,905,647	\$0	\$500,512
County Transfer	\$7,833,271	\$6,744,934	\$98,824	\$989,513

Expenditures were under the appropriated budget for the Community Activities Fund by \$489,001. In addition, program revenue exceeded the budget by \$500,512, resulting in a savings in County Transfer to this fund in the amount of \$989,513. 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 \$989,513, all of which is available for carry forward to FY 2011.

Cafeteria Fund

Appropriation Level – Cafeteria Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditure	\$6,699,592	\$6,094,127	\$40,138	\$565,327
Revenue	\$6,014,784	\$6,370,099	\$0	\$355,315
County Transfer	\$684,808	\$0	\$0	\$684,808
Fund Balance	\$0	\$275,972	(\$40,138)	\$235,834

In the Cafeteria Fund, FY 2010 revenues and fund balance were sufficient to cover the direct costs of the program. County Transfer revenue totaling \$684,808 was included in the FY 2010 budget to support this fund; however, no actual County Transfer was required, resulting in a savings of \$684,808 in County Transfer. Food Services staff has been working diligently to increase sales and decrease costs in this fund. In FY 2010, there were two basic causes of the savings in this fund: increased revenue and decreased expenses. Sales of meals were \$85,975 higher than budgeted, Federal revenue was \$257,319 higher than budgeted, and State revenue was \$12,021 higher than budgeted. Additionally, expenditures for food and supplies were lower than budgeted resulting in savings of \$565,327. The Cafeteria Fund ended the fiscal year with a fund balance of \$235,834.

Debt Service Fund

Appropriation Level – Debt Service Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditures	\$34,093,067	\$31,431,220	\$0	\$2,661,847
Revenue	\$0	\$0	\$0	\$0
County Transfer	\$34,093,067	\$31,431,220	\$0	\$2,661,847

The Debt Service Fund savings in the amount of \$2,661,847 were the result of a combination of lower than budgeted interest rates on the 2009 bond sale, savings from refinancing existing bonds, and the timing of debt payments in FY 2010 for the 2009 bond sale.

Comprehensive Services Act Fund

Appropriation Level – Comprehensive Services Act Fund				
	Budget	Actual	Encumbrances	Variance to Budget
Expenditures	\$3,650,000	\$3,802,578	\$0	(\$152,578)
Revenue	\$1,842,500	\$1,837,746	\$0	(\$4,754)
County Transfer	\$1,807,500	\$1,964,832	\$0	(\$157,332)

Expenditure overages of \$152,578 in the CSA Fund were the result of higher than anticipated mandated expenditures. Additionally, State revenue was \$4,754 below the budgeted amount. The net effect is that an additional \$157,332 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	\$13,756,603	\$8,618,229	\$3,631,588	\$1,506,786
Revenue	\$2,564,795	\$2,707,094	\$0	\$142,299
County Transfer	\$11,191,808	\$5,911,135	\$3,631,588	\$1,649,085

Due to long-term planning and implementation cycles, Capital Projects funds were not fully obligated by the end of FY 2010. As a result, \$1,506,786 remains in the expenditures budget. These funds, plus \$142,299 in revenue from sources other than County Transfer bring the total balance in the Capital Projects Fund to \$1,649,085 broken down as follows:

Minor Construction/Major Maintenance (MCMM)	\$ 642,729
Major Construction	<u>\$1,006,356</u>
Total	\$1,649,085

Summary of Closeout of the FY 2010 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 **\$33,707,215** in unobligated County Transfer. The FY 2011 School Operating Budget included carry forward funding in the amount of \$3,500,000.

The budget savings available from FY 2010 totals \$30,207,215 as outlined below:

School Operating Fund	\$27,879,294
Community Activities Fund	\$989,513
Cafeteria Fund	\$684,808
Debt Service Fund	\$2,661,847
CSA Fund	(\$157,332)
Capital Projects Fund	<u>\$1,649,085</u>
Total Savings	\$33,707,215
Less: FY11 Adopted Budget Carry Forward from FY10	<u>\$(3,500,000)</u>
Budget Savings Available at 06/30/10	\$30,207,215

Components of Budget Savings during FY 2010

During FY 2010, a number of events occurred which resulted in the \$30.2 million in budget savings. A summary of these events is provided below:

- During the first half of the fiscal year (through December 2009) the economic situation was such that both the County and the State were projecting significant shortfalls in revenue collections which would have resulted in a reduction of funds available to APS in FY 2010. In order to prepare for this projected reduction of funds, Schools set aside \$16.2 million to cover the expected reductions. These funds comprised:

	Millions
○ Budget reserve in Adopted 2010 Budget	\$3.4
○ Budget reserve from FY 2009 Carryover	\$9.3
○ Reductions taken in central departments	\$1.4
○ Lease Savings	\$0.6
○ Debt Service Savings	\$2.7
○ Bond Premium Received	\$1.5
○ Reduction in State Aid	<u>(\$2.7)</u>
Total identified as of December 2009	\$16.2

- For the 4th quarter of FY 2010, the State implemented a suspension of payments into the Virginia Retirement System. As a result, APS saved approximately \$8.0 million in VRS costs in FY 2010.
 - **VRS savings from April-June 2010** **\$8.0**

- Additional savings identified after year end and included in closeout of FY 2010:

○ Savings identified at closeout of FY 2010	<u>\$9.5</u>
Total Budget Savings	\$33.7
Less: Carry-forward to FY 2011 Budget	<u>\$(3.5)</u>
Budget Savings Available from FY 2010	\$30.2

Additional County Tax Revenue due to APS for FY 2010

Under the Revenue Sharing Agreement between the County and APS, APS was entitled to 49.1% of net local tax revenue in FY 2010. The School Board's FY 2011 Adopted Budget includes no additional FY 2010 re-estimated revenue. The actual amount of re-estimated revenue due to APS for FY 2010 is \$1,207,274 as outlined in the County Closeout Report. As in prior years, the County closeout amount to the Schools was adjusted by the amount required to be set aside to meet the General Fund reserve, which is increased from 3.50% to 3.75%, to which the Schools contribute. As a result, the Schools are contributing \$1,695,629 from closeout to the General Fund reserve. The increase in revenue combined with the required contribution to the General Fund reserve result in a decrease in the County Transfer to the Schools in FY 2010 of (\$488,355).

Summary of FY 2010 Budget Savings and Additional Revenue

Budget Savings from above	\$30,207,215
Plus: Additional County Revenue	\$1,207,274
Less: Contribution to General Fund Reserve	<u>(\$1,695,629)</u>
Total funds available from FY 2010	\$29,718,860

Use of Funds Available from FY 2010

The budget savings combined with the reduction in County Transfer provide a total of \$29,718,860 from FY 2010 available to be used in FY 2011. Staff recommends the following uses of these funds:

<u>Capital Projects Fund</u>	\$1,649,085
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 2010 be re-appropriated to the Capital Projects Fund in FY 2011 to continue the ongoing projects.	
<u>OPEB Reserve</u>	\$85,596
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 \$781,161 as of 6/30/10.	
<u>Staff Contingency Accounts</u>	\$1,979,179
Because of changes in enrollment and staff's commitment to keeping class sizes no larger than the recommended maximum, a net total of 37.30 teachers, 25.40 assistants, 6 bus drivers and 2 bus aides were added above the positions allocated in the budget. These funds are required to cover the overages in the staff contingency accounts.	
<u>Additional Funds for FY 2011 Needs</u>	\$3,410,000
Includes funds to purchase 4 regular and 2 special needs school buses to accommodate additional enrollment and alleviate transportation delays (\$670,000), needed upgrades in both technology equipment and software to bring technology infrastructure up to date (\$1,200,000), funds for Mathematics textbook adoption (\$1,500,000), and funds for the Schools' capital payment for the new library Integrated Library System (ILS), which is a collaborative initiative with the County (\$40,000).	
<u>Reserve to Offset Increases in FY 2012 Budget</u>	\$3,945,000
Includes funds to be used in the FY 2012 budget for the increase in the annual cost of contributions to the OPEB Trust (\$400,000), partial funds for the increase in debt service costs (\$2,000,000), funds for Arts textbook adoption (\$870,000) and funds for furniture and equipment needs for phase II of Yorktown High School (\$675,000).	
<u>Reserve for Unfunded Liabilities</u>	\$7,650,000
Includes funds to support the unfunded liabilities of Separation Pay, Net OPEB Obligation, and VRS future increases.	
<u>Reserve for Future Debt Service</u>	\$7,000,000
Funds are set aside to address the increase in Debt Service in FY 2013 and FY 2014.	
<u>Remaining Funds – General Reserve</u>	\$4,000,000
Total	\$29,718,860

Summary of Proposed Uses of Budget Savings and Additional County Revenue by Fund

School Operating Fund	\$28,069,775
Capital Projects Fund	<u>\$1,649,085</u>
Total	\$29,718,860

RECOMMENDED RESOLUTIONS:

1. To carry forward funds remaining from FY 2010 to FY 2011, it is recommended that the School Board adopt the following resolution:

The School Board requests the appropriation of \$28,069,775 to the School Operating Fund and \$1,649,085 to the Capital Projects Fund, which represents the combination of budget savings from FY 2010 in the amount of \$30,207,215 and an increase in local tax revenue from FY 2010 in the amount of \$1,207,274 less the contribution to the County's General Reserve of \$1,695,629.

The School Board also requests an increase in the FY 2011 County Transfer to \$31,569,775 for the School Operating Fund and to \$1,649,085 for the Capital Projects Fund. This includes the budget savings of \$30,207,215 from FY 2010, plus the additional local tax revenue of \$1,207,274, less the contribution to the County's General Reserve of (\$1,695,629), plus the budget savings (carry forward) of \$3,500,000 that was included in the FY 2011 Adopted Budget.

2. To provide for the purchase orders encumbered as of June 30, 2010 that will be paid in FY 2011, 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 2011 Schools Budget as indicated below:

School Operating Fund	\$2,900,963
Capital Projects Fund	\$3,631,588
Community Activities Fund	\$98,824
Cafeteria Fund.....	\$40,138

3. In order to continue the special projects and construction projects for 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 2011 of the unobligated balances of both the Grants 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 \$781,161 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 \$781,161 OPEB Reserve balance from FY 2010 to FY 2011.

5. In order to create a Debt Service Reserve in the amount of \$7,000,000, a Reserve for the FY 2012 fiscal year budget in the amount of \$3,945,000, and a Reserve for Unfunded Liabilities in the amount of \$7,650,000, it is recommended that the School Board adopt the following resolution:

The School Board authorizes the creation of a Reserve of Fund Balance for Debt Service in the amount of \$7,000,000, a Reserve of Fund Balance for fiscal year 2012 in the amount of \$3,945,000 and the creation of a Reserve of Fund Balance for Unfunded Liabilities in the amount of \$7,650,000. These reserves will be carried on the books of Arlington Public Schools until the School Board authorizes the use of these reserve funds.