



## ARLINGTON COUNTY, VIRGINIA

### County Board Agenda Item Meeting of January 26, 2008

**DATE:** January 18, 2008

**SUBJECT:** Amendments to Schools appropriations for FY 2008 based on closeout of FY 2007

#### **C. M. RECOMMENDATION:**

Approve the revised appropriations for various School funds in FY 2008 to reflect the approved School Board resolutions in the FY 2007 Final Fiscal Status Report.

**ISSUE:** As part of the regular process, County Board authorization is sought for Arlington Public Schools' FY 2008 appropriations based on FY 2007 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 \$21,251,695 in FY 2007 fund balance for Schools when it approved the County closeout report at the November recessed meeting. At that time, the Schools had not finalized the specific allocations by fund. This action will modify appropriations for the Schools budget for FY 2008 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 (\$6,554,607) was already anticipated by the Schools and included in the FY 2008 Adopted Budget. Additional funds (\$3,755,937) were derived from the final closeout of FY 2007. Schools have proposed to use the additional funds for the Washington-Lee Capital Project (\$4,996,956); a correction to the year-end salary accrual related to programming problems with the new STARS financial system (\$577,570); contributions to the retiree health insurance reserve (\$450,000); site upgrade costs for the High School Continuation program (\$300,000); increases to staff contingency accounts (\$910,000) necessary to maintain class sizes no larger than recommended maximums; upgrades to the Winocular Applicant Tracking System (\$43,000); increased shipping and materials costs related to the Warehouse closing (\$200,000); adoption of the Virginia Grade Level Alternative tests for use with limited English proficient students (\$60,000); repairs to and replacements of various HVAC systems (\$500,000); and additional funding for security system upgrades (\$138,610). These costs are partially offset by \$4.4 million in the Schools budget that the School Board reallocated on November 29, 2007. The School Board approved the allocation of carryover amounts to various

County Manager: \_\_\_\_\_

County Attorney: \_\_\_\_\_

Staff: Jon Altshul, Revenue Analyst, Department of Management and Finance

School funds, as detailed in the attached FY 2007 Final Fiscal Status Report on December 18, 2007, requiring revised appropriations for FY2008.

**FISCAL IMPACT:** The FY 2008 appropriations for Schools will be revised to reflect the additional of carryover amounts from FY 2007.

**ARLINGTON PUBLIC SCHOOLS**  
**Department of Finance and Management Services**

**MEMORANDUM**

November 20, 2007

**TO:** Robert G. Smith, Superintendent

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

**FROM:** David Blorstad, Director of Finance

**SUBJECT:** FY 2007 Final Fiscal Status Report

The financial records for the 2006-2007 school year (FY 2007) have been closed and the Annual Report has been prepared for the State Department of Education. This summary report is prepared for information and Board action as noted. As a whole, expenditures in all of the five funds requiring County Transfer Funds were within their respective appropriation levels.

**EXPENDITURES**

Appropriation Levels - Funds requiring County Transfer				
Fund	Appropriation Authorization	Less Expenditure	Less Encumbrance	Equals Balance
School Operating	\$323,641,656	\$317,304,085	\$3,032,206	\$3,305,365
Community Activities	14,399,868	13,886,775	101,392	411,701
Cafeteria	5,866,102	5,994,772	24,184	(152,854)
Capital Projects	36,855,766	20,705,871	5,215,076	10,934,819
Debt Service	25,708,630	25,638,399	0	70,231
Comprehensive Services Act	3,750,000	3,208,782	0	541,218
<b>Total</b>	<b>\$410,222,022</b>	<b>\$386,738,684</b>	<b>\$8,372,858</b>	<b>\$15,110,480</b>

Encumbrances and expenditures were within appropriation levels authorized for all funds. Savings in the School Operating Fund were realized in Lapse and Turnover, Separation Pay and in the Benefits Reserve. These savings were partially offset by overruns in maintenance overtime, custodial overtime, transportation overtime, and air conditioning system repairs.

**Expenditures (continued)**

End of the year Community Activities savings of \$411,701 were the result of savings in the following programs: Extended Day, Drew Community Center, Career Center, Swimming Pools,

TJ Community Center, Humanities, Planetarium and Youth Services. Gunston Community Center, Hoffman Boston Community Center and Teen Parenting Program had various expenditure overages due to higher salary and benefit costs. Although individual programs in the Community Activities Fund were above or below the funded level, the total Community Activities Fund was within the appropriation from the County and no adjustment is required.

Due to long-term planning and implementation cycles, Capital Project funds were not fully obligated and \$10,934,819 will be carried forward into FY 2008 as in prior years. These funds, plus \$6,334 of revenue from outside sources brings the total carryover in the Capital Projects Funds to \$10,941,153. The breakdown of these funds is as follows:

Minor Construction/Major Maintenance	\$ 3,401,989
Major Construction	\$ 7,539,164

The Debt Service Fund savings in the amount of \$70,231 were the result lower interest rates on the June 2006 bond sale than were estimated when the budget was adopted.

The CSA Fund savings in the amount of \$541,218 were the result of lower mandated expenditures than were anticipated.

In the School Food Services Fund, FY 2007 expenditures were \$152,854 over budgeted amounts due to higher food, supply, payroll and benefit costs. A full summary of School Food Service Revenue and Expenditures is included in the section titled School Food Services Fund, on page 4 of this report.

**Community Activities Fund**

As mentioned earlier, the balances in Extended Day, Drew Community Center, Career Center, Swimming Pools, TJ Community Center, Humanities, Planetarium and Youth Services Programs were the main contributors to the overall savings in the Community Activities Fund. These savings were primarily from salary and related fringe benefit savings. Gunston Community Center, Hoffman Boston Community Center and Teen Parenting Program had various expenditure overages due to higher salary and related fringe benefit costs and . Although individual programs in the Community Activities Fund were above or below the funded level, the total Community Activities Fund was within the appropriation from the County and no adjustment is required.

Appropriation Levels – Community Activities Fund by Program				
Program	Appropriation Authorization	Less Expenditure	Less Encumbrance	Equals Balance
Adult Education	\$1,345,576	\$1,345,576	\$0	\$0
Swimming Pools	765,714	730,929	37,838	(3,053)
Career Center	95,977	6,336	0	89,641
Community Use of School Facilities	2,860,924	2,860,924	0	0

Jefferson CC	671,583	614,147	49,623	7,813
Humanities	155,761	145,758	0	10,003
Youth Services	186,382	111,192	0	75,190
Extended Day	7,372,569	7,166,900	7,554	198,115
Planetarium	197,254	192,279	5,554	(579)
Gunston CC	379,565	389,084	823	(10,342)
Drew CC	120,788	39,263	0	81,525
Hoffman Boston	66,069	73,576	0	(7,507)
Teen Parent	181,706	210,811	0	(29,105)
TOTAL	\$14,399,868	\$13,886,775	\$101,392	\$411,701

Revenues within the Community Activities Fund were slightly under forecast for the year. Jefferson and Gunston had rentals that were lower than expected. Revenues in the Extended Day program were higher than budgeted (expenses were also lower than expected). Planetarium revenue was slightly higher than budgeted. Below is a table representing the impact on the County Transfer to the Community Activities Fund.

Impact on County Transfer – Community Activities Fund by Program			
Program	Expenditure Balance	Revenues from Outside Sources Over(Under)	Expenditure Balances and Excess Revenues as of 6/30/07
Adult Education	\$0	\$0	\$0
Swimming Pools	(3,053)	0	(3,053)
Career Center	89,641	0	89,641
Community Use of School Facilities	0	0	0
Jefferson CC	7,813	(5,121)	2,692
Humanities	10,003	0	10,003
Youth Services	75,190	0	75,190
Extended Day	198,115	51,545	249,660
Planetarium	(579)	121	(458)
Gunston CC	(10,342)	(5,500)	(15,842)

Drew CC	81,525	0	81,525
Hoffman-Boston	(7,507)	0	(7,507)
Teen Parent	(29,105)	0	(29,105)
<b>TOTAL</b>	<b>\$411,701</b>	<b>\$41,045</b>	<b>\$452,746</b>

### **School Food Services Fund**

In the School Food Services Fund, FY 2007 revenues and the fund balance were insufficient to cover the direct costs of the program. County Transfer revenue totaling \$144,086 was included in the FY 2007 budget to support this fund. The actual County Transfer required was \$354,832. The School Food Service Fund will be monitored closely in FY 2008.

<b>Appropriation Levels – School Food Services Fund</b>				
	Appropriation Authorization	Less Actual	Less Encumbrance	Balance Revenue Over(Under) Expenditures
Revenue	\$5,722,016	\$5,477,120	\$0	\$(244,896)
County Transfer	144,086	354,832	0	210,746
Expenditure	5,866,102	5,994,772	24,184	(152,854)
<b>BALANCE</b>	<b>\$0</b>	<b>\$162,820</b>	<b>24,184</b>	<b>\$(187,004)</b>

### **Comprehensive Services Act**

The CSA Fund savings in the amount of \$541,218 were the result of lower mandated expenditures than were anticipated. The State reimburses 55% of the costs, therefore our State Revenue was \$264,510 below the budgeted amount. The net of these two items results in a savings in needed County Transfer in the amount of \$276,708.

### **REVENUES**

Revenues from sources outside the County Transfer exceeded budgeted amounts in the School Operating Fund (Attachment I). Revenue from the State was \$219,613 higher than budgeted due to increased enrollment, which resulted in additional funding for enrollment driven State revenues. Also, APS received a bond premium from the sale of bonds (\$266,540). Local funds were greater than budgeted for Montessori fees, building rentals, music instrument rentals, high school gate receipts, and tuition from other districts, regular tuition and sales of surplus property. Local funds were also less than budgeted in adult tuition, drivers education fees, summer school fees and transcript fees. School Operating Fund expenditure savings and the revenue surplus will provide carry forward funds for FY 2008. It should be noted that \$2,461,915 was already included in the FY 2008 budget as carry forward and is not available to

be appropriated again. Attachment I provides greater detail of the revenue sources to the School Operating Fund.

### Summary of Closeout of the FY 2007 Appropriated School Board Budget

The expenditure balances and excess revenues from sources other than the County Transfer in the five funds requiring a County Transfer resulted in a total balance of **\$15,605,682** of unobligated County Transfer. The FY 2008 School Operating Budget included carry forward funding in the amount of \$2,461,915 which was the projected savings from FY 2007. As in years past re-appropriation of the balance in the Capital Projects Fund (\$10,941,153) will be requested within this fund. The balance in the Capital Projects Fund is comprised of incomplete projects, including portions of major construction projects, as well as uncommitted funds.

The Budget Savings from FY 2007 totals \$2,202,614. This represents the remaining balances in the following funds:

School Operating Fund	\$4,075,590
Community Activities Fund	\$452,746
Capital Projects Fund	\$10,941,153
Debt Service Fund	\$70,231
Cafeteria Fund	\$(210,746)
CSA Fund	<u>\$276,708</u>
Total Savings	\$15,605,682
Less: Budgeted Carry Forward	\$(2,461,915)
Less: Funds to remain in Capital Projects Fund	<u>\$(10,941,153)</u>
Budget Savings Available	<b>\$2,202,614</b>

Impact on County Transfer			
Fund	Expenditure Balance	Revenues from Outside Sources Over(Under)	Expenditure Balances and Excess Revenues as of 6/30/07 (County Transfer Balance)
School Operating	\$3,305,365	\$770,225	\$4,075,590
Community Activities	411,701	41,045	452,746
Capital Projects	10,934,819	6,334	10,941,153
Debt Service	70,231	0	70,231
Cafeteria Fund	(152,854)	(57,892)	(210,746)
Comprehensive Services Act	541,218	(264,510)	276,708
<b>TOTAL</b>	<b>\$15,110,480</b>	<b>\$495,202</b>	<b>\$15,605,682</b>

## **Additional Tax Revenue due to APS for FY 2007**

Under the Revenue Sharing Agreement between the County and Arlington Public Schools (APS), in FY 2007, APS was entitled to 47.7% of net local tax revenue. The School Board's FY 2008 Adopted Budget includes \$4,092,692 of additional FY 2007 re-estimated revenue. The actual amount of re-estimated revenue due to APS for FY 2007 is \$5,646,015, which is included in the County Closeout Report. This provides APS with an additional \$1,553,323 of funds from closeout. In the past, the County closeout amount was adjusted by the amount of funds required to be set aside to meet the 2.0% General Fund reserve, which the Schools contribute to. The County, based upon recommendations from the Financial Advisors, has increased the reserve to 3.0% of the General Fund. As part of closeout, the Schools are contributing a total of \$4,610,695 to the General Fund reserve.

### **Use of Budget Savings and Additional County Revenue**

The Budget Savings and Additional County Revenue provides a total of \$3,755,937 of funds available from FY 2007 to use in FY 2008. Additionally, in the FY 2008 budget there are funds budgeted for the Head Start program (\$1,920,199) and for the High school Continuation Program at Arlington Mill (\$2,500,000) which brings the total funds available to \$8,176,136.

Staff recommends the following uses of these funds:

#### **Washington-Lee Capital Project - Remaining Funds to Meet Budget **\$4,996,956****

The School Board's Adopted FY 2007 – 2012 Capital Improvement Plan indicated that current revenues would fund a portion of the Washington-Lee project. Since FY 2005, the School Board has approved varying amounts from current revenues for W-L. The balance remaining to fund the W-L budgeted amount is \$4,996,956. Staff recommends that Close-Out funds be allocated to the W-L project. The following table shows the current revenues allocated to the W-L project with the addition of this amount to the project.

Total Current Revenues Required for W-L Project	\$24,109,050
Less: Funds allocated in FY 2005/FY 2006	\$(8,767,462)
Less: Funds allocated in FY 2007	\$(2,391,061)
Less: Funds allocated in FY 2008	<u>\$(7,953,571)</u>

Remaining funds to be allocated \$4,996,956

Proposal to use FY 2007 Closeout funds \$(4,996,956)

Remaining funds to be allocated \$0

#### **Salary Accrual Correction of FY 2007 Accrual Amount **\$577,570****

At fiscal year end, salaries are accrued to properly expense costs in the appropriate fiscal year. At 06/30/07 the salary accrual was incorrect due to programming issues with STARS that caused the accrual to be understated by \$577,570. In order to make the schools and departments whole in FY 2008, this amount is required. Had this amount been recorded correctly, the carryover funds would have been lower by this amount.

#### **Retiree Health Care Fund (OPEB) **\$450,000****

Based on the most recent actuarial valuation of our OPEB liability, the Annual Required Contribution (ARC) for APS is \$22.7 million per year. APS currently has a total of \$3.75 million allocated toward this liability. Of this amount, \$3,400,000 was funded with one-time revenues while \$350,000 is included in our baseline budget. Adding this \$450,000 increases our baseline amount to \$800,000 and increases the total reserve of \$4.2 million.

**High School Continuation** **\$300,000**

The FY 2008 Adopted Budget included \$2,500,000 for the build-out of a to-be- determined lease space to house the High School Continuation program currently located at Arlington Mill. Staff has been unable to find an acceptable space for the program and beginning in FY 2009, this program will be housed at the Wilson site. These funds will be required to upgrade the space at Wilson for the program prior to their occupancy.

**Staff Contingency Accounts** **\$910,000**

Because of changes in enrollment and staff's commitment to keeping the class sizes no larger than the recommended maximum, a total of 32.06 teachers and 15.5 assistants were added above the positions allocated in the budget. Funds are required to cover the overages in the staff contingency accounts.

**Winocular Upgrade** **\$43,000**

The Winocular Applicant Tracking System (ATS) purchased in 2000 has become outdated and is not in line with current technology. The upgrade will allow APS to do all applications online and allow hiring managers from all departments to access all applications. It also automates the entire hiring process, and provides for digital records storage, rather than maintaining paper files. Staff had originally thought the STARS system would be able to meet the needs of tracking applications. However, after further review, staff believes that an upgrade of the current system will better meet their needs.

**Increased Shipping/Materials Costs** **\$200,000**

The FY 2008 Budget included savings of \$750,000 due to the Warehouse closing. The budget also included \$150,000 to pay for increased shipping, materials and other costs due to the direct delivery to the schools rather than to the one Warehouse site. Schools and departments are finding that the shipping costs are greater than anticipated and the cost of items, in particular custodial supplies, has increased. Funds are provided to support these additional costs.

**Virginia Grade Level Assessment Tests** **\$60,000**

Staff is recommending that APS adopt the Virginia Grade Level Alternative (VGLA) for use with limited English proficient students at levels 1 and 2 of English language proficiency as the grade-level reading assessment required by No Child Left Behind for the 2007-2008 school year. \$60,000 is required to support this initiative.

**Additional Funds for MC/MM Projects – HVAC** **\$500,000**

The FY 2008 Capital Projects fund currently includes \$1,122,355 for HVAC projects. With these additional funds, APS will be able to make necessary major repairs and equipment replacements at several schools with chronic HVAC problems, including Taylor, HB Woodlawn, Williamsburg and Claremont. Funds are also needed to implement the mechanical component replacements that will emerge as recommendations such as the replacement of the controls recommended by the consultant studying Wakefield.

**Additional Funds for MC/MM Projects – Security System Upgrades** **\$138,610**

The FY 2008 Capital Projects Fund currently includes \$463,240 for security system upgrades. These additional funds will enable APS to move more aggressively into phase 2 of the security plan. We will expand security cameras and access control to at least two perimeter locations at each elementary and middle school and expand the coverage to include the high schools. There will be at least two monitoring points in each building, as well, so that access control coverage

can include extended day and other activities outside of the school day, when the school office is closed. With these additional funds the perimeter access control, visitor management and camera systems can be designed to be centrally as well as locally monitored.

**Total** **\$8,176,136**

**Summary of Proposed Uses by Fund**

School Operating Fund	\$ 2,212,055
Community Activities Fund	\$ 15,679
Cafeteria Fund	\$ 12,836
 School Capital Projects Fund	 <u>\$ 5,935,566</u>
Total	\$ 8,176,136
 Less: Amounts being reallocated within the FY 2008 Budget	
From Head Start Program (already appropriated in Operating Fund)	(\$1,920,199)
From Arlington Mill (already appropriated in Capital Projects)	<u>(\$2,500,000)</u>
 <b>Balance requiring new appropriation</b>	 <b><u>\$ 3,755,937</u></b>

**School Board Action not requiring County Board Action:**

1. To reallocate funds within the FY 2008 Budget, it is recommended that the School Board take the following action:

**The School Board approves the reallocation of funds within the Adopted FY 2008 Budget, reallocating the budgeted funds for the Head Start Program (\$1,920,199) other Operating Fund items listed above and reallocating the budgeted funds for the Arlington Mill relocation (\$2,500,000) to the Washington-Lee Construction.**

**RECOMMENDED RESOLUTIONS:**

1. To carry forward funds remaining from FY 2007 to FY 2008, it is recommended that the School Board adopt the following resolution:

**The School Board requests the appropriation of \$291,856 to the School Operating Fund, \$15,679 to the Community Activities Fund, \$12,836 to the Cafeteria Fund and \$3,435,566 to the Capital Projects Fund which represents the combination of budget savings from FY 2007 in the amount of \$2,202,614 and the estimated additional local tax revenue in the amount of \$1,553,323.**

The School Board also requests an increase in the FY 2008 County Transfer of \$2,753,771 to the School Operating Fund, \$15,679 to the Community Activities Fund, \$12,836 to the Cafeteria Fund and \$7,528,258 to the Capital Projects Fund, which includes the Budget Savings and Additional County Revenue total of \$3,755,937 plus the budget savings and additional County Revenue in the amount of \$6,554,607 that was included in the FY 08 Adopted Budget.

2. To provide continuity to the planning and implementation cycles of the projects funded in the Capital Projects Fund, it is recommended that the School Board adopt the following resolution:

**The School Board requests re-appropriation of both the appropriation and County Transfer balance of \$10,941,153 from FY 2007 to FY 2008 in the Capital Projects Fund.**

4. To provide for the purchase orders encumbered as of June 30, 2007 that will be paid in FY 2008, 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 2008 School Budgets as indicated below:**

School Operating Fund.....	\$3,032,206
Capital Projects Fund .....	5,215,076
Community	Activities
Fund.....	101,392
Cafeteria	
Fund.....	24,184

5. In order to continue the special projects and construction projects where 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 2008 of the unobligated balances of the Grant and Restricted Programs Funds, and the Bond Construction Fund.**

6. In order to retain the current \$2,000,000 Reserve Fund balance and the current \$3,400,000 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 \$3,400,000 OPEB Reserve balance from FY 2007 to FY 2008.**