

City of Alexandria, Virginia
Alexandria City Public Schools

MEMORANDUM

DATE: APRIL 25, 2016

TO: CITY COUNCIL/SCHOOL BOARD SUBCOMMITTEE

THROUGH: DR. ALVIN L. CRAWLEY, ACPS SUPERINTENDENT
MARK B. JINKS, CITY MANAGER

FROM: STACEY B. JOHNSON, ACPS CHIEF FINANCIAL OFFICER
KENDEL TAYLOR, CITY DIRECTOR OF FINANCE

SUBJECT: CONSIDERATION OF ACPS FUND BALANCE POLICY

On December 18, 2014, the Alexandria City School Board heard and approved a staff recommendation “that together ACPS and the City develop a fund balance policy for schools that outlines the appropriate level of unrestricted fund balance for ACPS, addresses the amount of the City’s fund balance that should be designated for schools (if any), and establishes the protocols and guidelines that govern the process and criteria by which ACPS may access the City’s funds.” In addition, City Council members have also raised questions regarding the level of fund balance maintained by ACPS, seeking recommendations from the City Manager on this topic.

Per the Code of Virginia, school divisions are governed by independently-elected school boards. This governance includes oversight of the short and long-term financial management of the school division. Nonetheless, since ACPS is considered a component unit of the City of Alexandria government for accounting purposes and is fiscally dependent on the City for the majority of its funding, it is important that ACPS, with the City’s support, establish a clear fund balance policy to demonstrate orderly and proper stewardship of its financial resources to its constituency. Additionally, rather than fostering a “use it or lose it culture,” this policy attempts to keep ACPS surplus and savings available to ACPS for operating expenditures and capital projects, as well as certain unforeseen risks and uncertainties.

This policy largely formalizes and updates a mutual understanding and practice between the City and ACPS that once an operating or capital transfer is made from the City to ACPS, any surplus or savings derived from those transfers accrues for the future use by ACPS in subsequent fiscal years and does not revert back to the City. This policy also affirms that the total allocation of funds transferred to ACPS including fund balance requires City Council’s appropriation approval on an annual basis. However, the actual spending or use of funds is governed by, and at the sole discretion of, the School Board.

Staff from both organizations have worked together to establish generally acceptable levels of fund balance for ACPS to carry on an annual basis with an understanding that amounts held in excess of this level be used for current capital needs. Staff made a presentation in June to the City Council School Board Subcommittee, describing the work that had been accomplished. Further refinement of the appropriate levels has occurred and the proposed policy largely reflects the current practice of maintaining and utilizing fund balance to fund the upcoming or subsequent year's budget to a maximum of 2% of the budget per year with any remaining portion of available fund balance reserved for unforeseen, one-time expenditures and revenue shortfalls at up to 1% of the budget. Staff agrees that a maximum of 5% of the budget may be held by ACPS in unrestricted fund balance, using any excess resources for school capital.

While this proposed fund balance policy is intended to be formally adopted by the School Board as an ACPS policy, it is contemplated that City Council will be asked to support this policy since it involves the use of City funds and is a factor in the annual budget process. Ultimately, this proposal represents an agreed upon engagement on how to handle year-end funds and the guidelines for determining the amount that should be held in fund balance. Neither this memo nor the attached policy are legally binding, but should be considered a good faith, non-binding, statement of mutual expectations. The following section outlines the fund balance framework ACPS staff is recommending for School Board approval.

Proposed Fund Balance Policy

The attached draft School Board policy for maintaining and prioritizing Fund Balance enables the School Board to maintain a maximum unrestricted operating fund balance of 5% of their Final Operating Budget. The following outlines the key elements of the proposed fund balance policy including authorized uses and amounts:

- A maximum of 2 percent of the ACPS Final Operating Budget may be funded from Operating Fund Balance for each of two relevant budget years—up to 2 percent in the current year and up to 2 percent in the subsequent year. Committing available fund balance to support the annual budget is consistent with current and past practice. This action would take place during the annual budget process, where the unassigned year-end fund balance from the previous fiscal year would be formally committed to support the subsequent year's School Operating Budget at no more than 2 percent of the total budget. For example, the FY 2016 Final School Operating Budget of \$240.3 million included the anticipated use of \$3.26 million (1.4 percent) from FY 2014 year-end fund balance. Similarly, the FY 2017 Approved Operating Budget of \$253.8 million includes the anticipated use of \$5.1 million (2.0 percent) from FY 2015 year-end fund balance.
- In addition, up to 1 percent of the subsequent year's Final Operating Budget may be held in reserves to provide resources for unforeseen, one-time expenditures or revenue shortfalls. This amount will also be assigned as a part of the annual budget process and designated as School Board Reserves.

- Upon completion of the annual financial audit, the total unrestricted fund balance should equal no more than 5 percent of the current year's Final Operating Budget. This will be evaluated by December 30 for the preceding fiscal year.
- Any fund balance above 5 percent of the current year's Final Operating Budget will be considered excess and should be used for one-time expenditures related to school capital projects, major equipment or vehicle replacement or any other urgent, unanticipated needs impacting ACPS operations at that time. The Superintendent will present recommendations for the use of excess fund balance to the School Board prior to the end of the current fiscal year, but preferably during the annual budget process.
- City Council's approval of a lump sum appropriation ordinance is required to authorize spending of the total annual amount for ACPS, including fund balance, for the subsequent fiscal year. The School Board may spend those resources at its discretion once appropriated.

Any use of fund balance identified through the annual budget process is considered for appropriation in June each year by City Council as part of the Annual Appropriation Ordinance. Such considerations are typically routine actions by City Council. If ACPS maintains any unassigned fund balance after the adoption of the Final Operating Budget, the appropriation for these amounts will have to occur through one of the Supplemental Appropriations Ordinance that are docketed three to four times per year or wait until the next budget cycle.

Next Steps

With the concurrence of the City Council/School Board Subcommittee, it is anticipated that this recommendation will be presented to both governing bodies for endorsement by the City Council and adoption by the School Board.