

Revised May 9, 2017 – See Footnote 1 on Page 5

Date: May 11, 2017

For ACTION _____

For INFORMATION X

Board Agenda: Yes X
No _____

FROM: Clarence Stukes, Chief Operating Officer
Michael R. Herbstman, Chief Financial Officer

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

TO: The Honorable Ramee A. Gentry, Chair, and Members of the Alexandria City School Board

TOPIC: Superintendent’s Recommended Adjustments to the FY 2018 Approved Combined-Funds Budget and FY 2018 – 2027 Approved Capital Improvement Program (CIP)

BACKGROUND:

FY 2018 Combined-Funds Budget

The Alexandria City School Board and ACPS Staff began work on the FY 2018 Combined-Funds Budget during the summer of 2016. By October 2016, initial revenue and expenditure projections were complete and indicated a preliminary budget gap of \$16.2 million in the operating fund, per the below calculations:

Operating Revenue	Amount
City Appropriations – FY 2017 Level	\$206,561,472
State Revenue	\$41,718,000
Federal and Local Revenue	\$835,763
Transfer to Grants Fund in Support of VPI	(\$1,581,974)
FY 2018 Preliminary Operating Revenue	\$247,533,261

Operating Expenditures	Amount
FY 2018 Baseline Budget	\$250,062,440
Enrollment-Driven Staffing Increases	\$1,490,247
Proposed Salary Increases	\$4,999,615
VRS-Mandated Contribution Increases	\$2,730,473
Health Care Cost Increases	\$2,490,271
Priority Additions	\$1,973,512
FY 2018 Preliminary Operating Expenses	\$263,746,558

Funding Gap	Amount
FY 2018 Preliminary Operating Revenue	\$247,533,261
FY 2018 Preliminary Operating Expenses	\$263,746,558
FY 2018 Preliminary Funding Gap	\$16,213,297

Between the initial projections and the School Board’s adoption of the combined-funds budget on February 23, 2017, every effort was made to thoughtfully reduce the funding shortfall while keeping reductions away from classrooms and maintaining competitive employee compensation. Each central office department was asked to reduce their budget leading to \$1.6 million in overall expenditure cutbacks. Fund balance was utilized to the maximum level allowable by ACPS Fund Balance Policy DAB, jointly written by ACPS and City of Alexandria staff. These efforts left a remaining deficit of \$9,587,932, which ACPS requested as additional City appropriation:

Funding Gap	Amount
FY 2018 Preliminary Funding Gap	\$16,213,297
Central Department Reductions	(\$1,592,433)
Use of Fund Balance per Policy DAB	(\$5,032,932)
FY 2018 Approved Budget Funding Gap	\$9,587,932

On May 4, 2017, the Alexandria City Council adopted their FY 2018 General Fund Operating Budget including an operating transfer to ACPS of \$214,061,472. This was \$2,087,932 short of the amount requested in the School Board Approved Budget.

FY 2018 – 2027 Capital Improvement Program (CIP) Budget

The Alexandria City School Board was presented with the Superintendent’s proposed FY 2018-2027 CIP Budget on October 27, 2016. A series of School Board add-delete work sessions and thorough consideration for the absolute needs of the School Division to address the seating deficit, as was requested by City Council in the FY 2017-2026 CIP approval process, resulted in a School Board Adopted CIP totaling \$611.0 million with \$89.7 million in FY 2018 on December 15, 2017. An expected budget gap of \$57.2 million based on the previous City Council approved allocation of \$32.5 million for FY 2018 was principally due to the adopted swing space budget of \$55.4 million to purchase and retrofit a building.

On May 4, 2017, the Alexandria City Council adopted the FY 2018-2027 CIP budget of \$373 million with an FY 2018 appropriation of \$19 million increasing the FY 2018 budget gap to \$70.7 million and 10-year budget gap to \$238.0 million.

DISCUSSION:

FY 2018 Combined-Funds Budget

This section outlines the Superintendent’s recommended changes since the School Board Approved FY 2018 Combined-Funds Budget. These modifications include both technical budget adjustments and reprioritizations of budgeted expenditures.

Operating Fund:

In order to close the Operating Fund budget gap while maintaining employee compensation at competitive levels, staff thoroughly analyzed revenue projections and examined additional reductions. With 88% of the ACPS Operating Fund budget dedicated to salary and benefits, changes to employee compensation increases are necessary to close the \$2.1 million budget gap. The following changes are recommended to the School Board:

- Revenue Adjustments – Increase of \$246,200
 - Virginia Appropriation: State appropriation estimates changed slightly following School Board budget approval. The new appropriations provide an additional \$46,200 in operating revenue.
 - Medicaid Revenue: Staff thoroughly analyzed Medicaid revenue for the previous five fiscal years and confirmed that an upward trend in revenue collection, due primarily to improvements in service reporting, allows for an additional \$200,000 in revenue estimates. This area will be closely monitored in the future because current federal health care discussions include provisions that may reduce

Medicaid payments to schools. Reductions would require changes at both the federal and state levels and are not anticipated to go into effect during FY 2018.

- Expenditure Adjustments – Decrease of \$1,841,672
 - Base Compensation Calculation: Updated calculations of employee base compensation were completed in April 2017. Based on the differences in pay between the actual employees staffed in April and the actual employees staffed during the initial projections, a technical adjustment down \$79,163 is warranted.
 - Elementary Encore Staffing Adjustments: Following School Board approval of the budget in February, ACPS Budget Staff discussed encore position allocations further with Elementary Principals. These discussions showed that the formula allocations did not meet the requirements of all schools. The Office of Elementary Instruction, the Department of Curriculum and Instruction and the Financial Services Department worked collaboratively with elementary principals to determine the actual encore staffing needs of each school. The end result was a recommended increase of 1.2 FTE from the School Board Approved Budget at a cost increase of \$103,693. Individual school-level changes to FY 2018 encore allocations are detailed in Attachment 2. During the summer of 2017, a revised encore staffing model will be developed that more appropriately meets student and scheduling needs for future years.
 - Technology Services Reductions: In addition to previous reductions from the Technology Services Department, \$92,416 was reduced from the capital replacement of hardware budget.
 - Pupil Transportation: The Pupil Transportation department has decreased budgeted expenditures by a total of \$100,000 for Vehicle Parts, Supplies, Maintenance and Repair. These savings are possible due to efficiencies realized through recent CIP-funded replacement of buses approaching the end of their useful life.
 - Communications Outreach Specialist for Capital Projects: The Communications Outreach Specialist was included as a new position in the School Board Approved Budget at an estimated annual cost of \$100,000. This position is no longer recommended for the Final Budget given the deferral of capital projects and pending recommendation from the Ad-Hoc Joint City-Schools Facilities Investment Task Force.
 - Science Instructional Specialist: The addition of a 1.0 FTE Science Instructional Specialist position was recommended in the Superintendent's Proposed Budget. This addition is no longer recommended. A 1.0 FTE K-12 Science Instructional Specialist (funded from the Operating Fund) will remain in the budget in addition to a 1.0 FTE Title I Science Specialist focusing on Title I schools. \$117,133 of savings will be realized by retracting this position request.
 - Teachers on Assignment: 4.0 FTE Teacher-on-Assignment positions are recommended to be closed and the employees currently staffed in these positions will be assigned to other teaching positions projected to be vacant for FY 2018. Currently, two of the Teachers-on-Assignment are serving in the role of Student Attendants. Closing these positions will necessitate opening 2.0 FTE new Paraprofessional I Student Attendant positions. The net budget reduction from all of these changes is \$462,055.
 - Physical Education/ Health Teacher: A 1.0 FTE PE/Health Teacher at the T.C. Williams King Street campus was recommended in the Superintendent's Proposed Budget. Current class enrollment projections for next year no longer support this as a priority addition.

- West End Elementary and Pre-K Center Administrative Staff Hiring: Both the West End Elementary and the Pre-K Center, co-located at John Adams Elementary School, are scheduled to open in FY 2019. Each school's FY 2018 budget includes a Principal, Registrar and Administrative Assistant position to facilitate during the preamble year. A delay in hiring until January 1, 2018 is recommended for both Registrars and both Administrative Assistants in order to save \$88,676.
- Extended Learning: A 10% reduction of Extended Learning funding is recommended across all schools at a total cost savings of \$76,096.
- Step Increase Deferral: The School Board Approved Budget includes a Full Step Increase for all eligible employees effective July 1, 2017 as well as a one-time payment of 1% of salary to all employees on a hold/top-step. This recommendation delays the step increase until October 1, 2017. Most school employees are paid on a 10-month calendar beginning in September. This recommendation postpones their step increase by one month. The change represents a two month delay for 11-month employees and a three-month delay for 12-month employees. No changes are recommended to the 1% hold/top-step payment. Overall, the deferred step increases will reduce expenditures by \$743,415.

Grants & Special Projects Fund:

At the time of the Superintendent's Proposed Budget, preliminary revenue estimates were used for all grants. More information is now available resulting in small adjustments to most grants totaling a decrease of \$335,055 for both revenues and expenditures. Further details are shown in Attachment 3.

School Nutrition Fund:

The following School Nutrition Fund changes are recommended:

- Revenue Adjustments – Increase of \$72,376
 - Donated Commodities: Increase of \$16,542 in donated commodity revenue based on higher estimates for reimbursement.
 - Meal Reimbursement for Dinner Program: Anticipated revenue increase of \$55,834.
- Expenditure Adjustment – Decrease of \$4,196
 - Step Increase Deferral: Reduction of expenditure estimates due to postponing the scheduled step increase to October 1, 2017.

Also, school lunch prices for students ineligible for free and reduced price meals are scheduled to increase by \$0.20 per meal, for FY 2018, as outlined below. This recommended change is in accordance with federal requirements intended to prevent free and reduced price meal reimbursements from subsidizing the cost of students not eligible for free and reduced price meals:

Grade Level	SY 2016 – 2017 Actual Price	SY 2017 – 2018 Proposed Price
Grades K – 8	\$2.65	\$2.85
Grades 9 -12	\$2.85	\$3.05

FY 2018 – 2027 Capital Improvement Program (CIP) Budget

In order to close the FY 2018 – 2027 CIP Budget gap while maintaining a commitment to the modernization program and ACPS's growing school division, staff has developed an alternative CIP which eliminates the budget gap in FY 2018 and decreases the 10 year budget gap. The proposed CIP incorporates the following changes to the School Board Approved FY 2018 – 2027 CIP Budget:

- Adjust relocatable funding in FY 2018 to provide funds for 30 relocatable classrooms compared to the original proposed 34 to help mitigate the budget gap
- Add remaining \$88,358 to system-wide project planning funds to assist with the increasing demand for more upfront planning of projects
- Move and adjust swing space budget request to FY 2019 for \$22 million, which assumes use of the Lee Center
- Move the Douglas MacArthur and George Mason projects out 1 year to begin design in FY 2020 and FY 2022, respectively, due to the need for swing space and adjust the budgets for inflation
- Move the Cora Kelly project out 2 years to begin design in FY 2024 to provide flexibility in using the swing space and adjust the budget for inflation
- Add \$1 million to system-wide emergency repair funding in FY 2022 to help alleviate issues with schools being modernized later than recommended
- Adjust the new middle school project to be a 600 student new build school with design in FY 2022 and construction in FY 2023 at a site to be determined
- Move the Matthew Maury and new elementary school projects out with design funds for each now requested in FY 2027 and adjust the budgets for inflation

The adjustments listed above decrease the budget gap based on the City Council approved ACPS budget for the FY 2018-2027 CIP from \$238.0 million to \$86.4 million¹ with no budget gap in FY 2018. Given the land needed to support CIP projects and the difficulty ACPS has experienced in finding available land, ACPS should be considered for \$8.0 million of the \$10.9 million which will be available in January 2017 following the completion of the work of the Ad-Hoc Joint City-Schools Facilities Investment Task Force. Funding for land acquisition will provide City Council and the School Board with the flexibility to explore potential opportunities for land. This \$8.0 million has not been included in the budget totals of the Superintendent's proposed revision.

Add/Delete Process for Combined Funds and CIP

- Tuesday, May 9: Add/Delete templates were sent to School Board members.
- Friday, May 12 by Noon: Completed School Board Add/Deletes due back to ACPS staff.
- Friday, May 12, by 10:00 PM: Staff will compile recommended Add/Deletes, confirm cost estimates and send the School Board the full list in preparation for Co-Sponsorship.
- Monday, May 15: School Board Submits Co-Sponsorships to Staff.
- Tuesday, May 16: Staff posts School Board Add/Deletes for Public Review.
- Thursday, May 18: Preliminary Add/Delete Session.
- Tuesday, May 23: Final Add/Delete Session.
- Thursday, May 25: School Board Adoption of CIP and Combined-Funds Budget.

¹ \$86.4 million corrected on May 9, 2017 from a previously-posted version showing \$77.5 million.

RECOMENDATION: The Superintendent recommends that the School Board reviews the proposed amendments to the FY 2018 Approved Combined-Funds Budget and FY 2018 – 2027 Approved Capital Improvement Program.

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Attachments:

1. Attachment #1: Superintendent's Proposed Revisions to the FY 2018 Approved Operating Fund Budget
2. Attachment #2: Proposed Elementary Encore Staffing Revisions
3. Attachment #3: Superintendent's Proposed Revisions to the FY 2018 Approved Grants and Special Projects Fund Budget
4. Attachment #4: Superintendent's Proposed Revisions to the FY 2018 Approved School Nutrition Fund Budget
5. Attachment #5: Superintendent's Proposed Revision to the FY 2018 – 2027 Approved Capital Improvement Program Summary (Revised May 9, 2017)
6. Attachment #6: Superintendent's Proposed Revision to the FY 2018 – 2027 Approved Capital Improvement Program Non-Capacity Details