

COUNTY OF ALBEMARLE

EXECUTIVE SUMMARY

AGENDA TITLE: Joint Meeting with School Board: Financial Policies Related to School Funding Allocation	AGENDA DATE: July 1, 2009
SUBJECT/PROPOSAL/REQUEST: As a follow up to the recommendations in the Resource Management Review, staff requests direction on whether to pursue changes to the County's financial policies related to the School funding allocation	ACTION: X INFORMATION:
STAFF CONTACT(S): Tucker, Moran, Foley, Benson, Davis, Bowman	CONSENT AGENDA: ACTION: INFORMATION:
LEGAL REVIEW: Yes	ATTACHMENTS: No
	REVIEWED BY:

BACKGROUND:

On February 11, 2009, Virginia Commonwealth University's Commonwealth Educational Policy Institute (CEPI) delivered a Resource Management Review to the Board of Supervisors. The report included three recommendations related to education funding for the County to consider:

- 1) "Begin in the FY 2010 budget process adjusting the 60% funding allocation up or down for the schools based on the previous year's change in population vs. school enrollment, as well as other programmatic considerations. These annual changes will likely be small but in the long term will help balance resources between the two entities."
- 2) "Allocate school system debt beginning with the FY 2010 budget process as part of the transfer to schools budget. Obviously, an adjustment must be made in the funding formula. The current transfer should be increased by the amount of debt service required in FY2010 and the percentage increased accordingly. From that point forward the percentage should be a single percentage and adjusted annually based on the above recommendation regarding population, school enrollment, and programmatic considerations."
- 3) "Negotiate between the County and the schools an appropriate fund balance for schools to maintain. While the carry over of unspent expenditures is an incentive for schools, it can also create an imbalance between the two. A good approach could be to create a maximum dollar amount of fund balance and anything above that amount would be allocated between the school and general fund balances on a pro-rata basis."

On December 6, 2007, Virginia Commonwealth University's Commonwealth Educational Policy Institute (CEPI) delivered a Resource Management Review to the School Board that included the following finding:

"The economic outlook for the nation and all cities and counties within the Commonwealth continues to worsen, and the timing of future growth is uncertain. While Albemarle Schools have enjoyed the informal revenue sharing (60%/40% of increases primarily in new property tax increases) with the general government, this percentage of sharing could be under review as local revenue growth slows, tax receipts increases are not as significant as in the past, as real estate assessment growth flattens and the housing market slows (both from new construction, as well as resales). Additionally, greater than 70% of households in the county without children are requesting additional services beyond education, like roads, fire stations, police officers, libraries, etc. Interviews with schools, as well as county officials, including finance administrators, the county executive and other key officials, reflect everyone's concern about slowing revenue forecasts and considerations for all demands being placed on county coffers."

The purpose of Wednesday's work session is to focus on the second recommendation above regarding the allocation of school debt service. Staff will prepare for future joint Board meetings to further discuss the first (operating allocation) and third (fund balance) recommendations from the local government Resource Management Review. The discussions regarding the operating allocation will be particularly important based on potential shared goals regarding compensation and benefits, as well as other changing needs. However, given the upcoming Capital Improvements Program (CIP) process and Board questions regarding the current role of the CIP Oversight Committee, staff requests

direction from the Boards at Wednesday's work session regarding whether or not debt service costs associated with School capital improvements should be included in the transfer to the School Division.

STRATEGIC PLAN:

Local Government:

- Mission: To enhance the well-being and quality of life for all citizens through the provision of the highest level of public service consistent with the prudent use of public funds.
- Objective 1.1 By June 30, 2009, the Board of Supervisors and general government employees will increase collaborative efforts with the School Board and with employees of the school system to assist the School Division to achieve recognition as a "world class education system."
- Objective 5.1: By June 30, 2010, develop a comprehensive funding strategy/plan to address the County's growing needs.

Schools:

- Mission: The core purpose of Albemarle County Public Schools is to establish a community of learners and learning, through rigor, relevance, and relationships, one student at a time.
- Goal 5: Establish efficient systems for development, allocation, and alignment of resources to support the Division's vision, mission, and goals.
- School Board Policy: Policy DB states that "the budget will be based upon the educational needs and financial ability of the division as cooperatively identified by the Superintendent, the School Board, division employees, and members of the public."

DISCUSSION:

For perspective on how other local governments provide guidance to School Boards *in advance* of their budget development, a number of localities that are typically considered benchmarks and/or have developed formal School funding allocation policies were surveyed. It is important to note that these policies provide initial guidance in budget preparation and localities aim to adhere closely to these policies; however, during the budget process, localities may consider additional factors when making final budget decisions. While the details of each locality's transfer policy vary between jurisdictions (e.g. the specific shared local revenue sources), the most significant differences in policies can be attributed to: 1) factors that drive the operating allocation to the school system; and 2) whether or not the allocation includes an amount to address capital needs.

The first issue, "factors that drive the operating allocation to the school system" is related to the local government Resource Management Review's first recommendation. Recognizing that the transfer policy related to the Schools' operations is more complex and may have significant implications for resource allocation for both local government and school services, staff plans to schedule a future work session between the two Boards to focus on this issue and recommends that any changes not be effective until the FY 11/12 budget process. In considering potential changes to the operating allocation which is currently based on revenue growth, a decision will need to be made regarding the degree to which the (1) changing expenditure needs of both local government and schools (e.g. state and federal mandates, programmatic needs, increasing service demands, joint compensation goals, etc.) and (2) demographic changes (e.g. population and enrollment growth, etc.) will be considered. Obviously, a combination of these factors could also be considered. Given the challenge of considering these issues, staff plans to conduct additional research to determine how other localities address their allocation given changing expenditure needs.

The second issue, "whether or not the allocation includes an amount to address capital needs" is the focus of Wednesday's work session. Based on the survey of localities, the expenditures included in the transfer to the Schools included either a) only operating expenses; b) operating expenses and debt service costs associated with School capital projects; or c) operating expenses and debt service and pay-as-you-go costs associated with School capital projects. The following table summarizes what expenditures each locality includes in its transfer to the School Division.

Locality	Operations	Operations + Debt Service	Operations + Debt Service + Pay-as-you-go
Albemarle	X		
Arlington			X
Chesterfield	X		
Fairfax	X		
Hanover	X		
Henrico	X		
Spotsylvania		X	
Virginia Beach			X

Staff seeks direction from the Boards on whether the debt service costs associated with School capital improvements should be included in the transfer to the School Division, in effect, “capping” the percentage of available revenue to fund both operating and capital needs for the Schools. As proposed in the Resource Management Review, going forward, changes in the total allocation percentage would occur based on an agreed upon annual adjustment. In thinking through this issue, the Boards may want to consider the following questions:

- ***Should school capital improvements be funded according to a set formula or funded based on an evaluation of needs?*** *Movement to an allocation that includes an amount established by a formula will require schools to make choices between operating and capital needs rather than considering capital expenditures annually based solely on identified and evaluated needs. If a single allocation for operations and capital is established, consideration will need to be given to how significant unanticipated capital needs will be addressed.*
- ***What are the implications of an allocation that includes capital and operational needs on the following current practices:***
 - ***upgraded school facilities for community use? (e.g. school facilities that also serve a Parks and Recreation need).***
 - ***operation of school facilities for community use?***
 - ***maintenance standards for existing facilities?***
 - ***maintaining commonality as it relates to joint compensation goals?****Will movement to an allocation that requires the schools to make choices between operating and capital needs have an impact on commonality regarding compensation?*

Depending on direction from Wednesday's joint meeting, staff will do further research on one of the following two alternatives and bring it back for final consideration:

1. If the Boards provide direction to include the debt service in the transfer to the Schools, staff will analyze the percentage of additional funding that should be provided beyond the existing “60/40 split.”
 - It should be noted that if the Boards pursue this new approach, the CIP Oversight Committee may no longer need to exist (or its role would be reduced if pay-as-you-go costs were excluded from the transfer).
2. If the Boards provide direction to continue with the current practice of jointly considering the capital needs of schools and local government, staff will prepare information for a future joint work session to consider changes to the role of the CIP Oversight Committee.

BUDGET IMPACT:

Staff will incorporate the Board's direction into the FY10/11 budget process.

RECOMMENDATIONS:

The Joint Boards should discuss the advantages and disadvantages of maintaining the current CIP processes. Given the upcoming Capital Improvements Program (CIP) process and Board questions regarding the current role of the CIP Oversight Committee, staff requests direction regarding whether or not debt service costs associated with School capital improvements should be included in the transfer to the School Division.