Albemarle County Public Schools

School Board Special Work Session

May 7, 2012

Agenda

- Virginia Retirement System (VRS) Reform Options
- Fund Balance/CIP Contribution Consensus
- Budget Discussion/Direction

VRS Reform Information and Options

VRS Reform Legislation
HB 1130 and SB 498

- Established new hybrid plan for employees hired on/after January 1, 2014
  - Defined Benefit
    - Benefit multiplier = 1%
    - Employee contribution = 4%
    - Employer rate – actuary
  - Defined Contribution: Deferred compensation plan with employee and partial matching employer contributions. Employee directs investments.

VRS Reform Legislation
HB 1130 and SB 498

- Employees in service on December 31, 2013 may make an irrevocable decision to transfer to the new hybrid plan.
- Creates disability program for local employees.

VRS Reform Legislation
HB 1130 and SB 498

- Adjustments to existing defined benefit plan for non-vested employees (less than five years service on July 1, 2012)
  - Lowers benefit multiplier from 1.7% to 1.65%
  - Average final compensation based on 60 months of service (vice 36 months)
  - Caps COLA at 3%
  - Early retirees receive no COLA until one year after normal retirement age

VRS Reform Legislation SB 497 (Companion)

- SB 497 mandates:
  - Employees share in the cost of VRS by contributing 5 percent of their salary.
  - A 5 percent increase in employee salaries that only partially offsets the impact of the employee contributions.

VRS Reform Legislation SB 497 (Companion)

- Timing:
  - All employees hired on/after July 1, 2012 must make the full 5% contribution.
  - Local governments and school boards may phase in the 5% contribution by at least 1% each year. All must pay 5% by July 1, 2016.

VRS Reform Legislation
SB 497 (Companion)

- Additional costs to the School Board due to increased salary/benefit costs
- Increased employee payroll deduction from increased salaries

VRS Reform Legislation
SB 497 (Companion)

- Increases the future obligations of VRS
- Provides slightly higher retirement benefits for currently vested employees.

VRS Implementation Recommendations

Staff Recommends adopting 5% full implementation without addressing the salary issues inherent in the mandated increase.

- The current 1% market increase may address some of our identified market disparities to maintain competitiveness

1% Phase-in Points

- Introduces competitive/equity problems for those new to the division
- Costs less until full implementation
- Greatly increased administrative burden/costs, new systems maintained for phase-in time period only
- Introduces pay disparities for both new hires and those moving from P/T to F/T employment

5% Phase-in Points

- Ensures competitive take home pay for staff relative to other divisions
- Highest initial cost in FY 2012/13
- Minimizes administrative burden/costs
- Treats all staff equally

VRS Changes

Impact of One Percent Phase-in vs.
Full Five Percent

Impact

on employees, recruitment and efficient systems

- Internal Equity- Adopted strategy is to maintain fairness in pay based on job responsibilities (paygrade), performance and experience
- External Competitiveness-Adopted strategy is to target classified employees pay at market and teachers at top quartile
- Risks/Costs-the administration and communication required

Impact on Employees
Internal Equity

Employees with same years of service and qualifications	Ben – \$24.03/hour \$50,000 (Full time)	Ashley -\$24.03/hour \$25,000 (0.50 FTE) becomes full time August 1, 2012
Salary with 6% Increase (1% Joint Board + 5% VRS)	\$53,000 New Salary VRS Contribution (-5%)= -\$2,650 Employee Share FICA = -\$2,995 New Total: \$47,356	\$53,000 New Salary VRS Contribution (-5%)= -\$2,650 Employee Share FICA = -\$2,995 New Total: \$47,356 **Equity maintained**
Salary with 2% Increase (1% Joint Board + 1% VRS)	\$51,000 New Salary VRS Contribution (-1%)= -\$510 Employee Share FICA = -\$2,882 New Total: \$47,609	\$51,000 New Salary **VRS Contribution (-5%)= -\$2,550** Employee Share FICA = -\$2,882 New Total: \$45,568 **Ashley's take home pay is \$2,041 less than Ben solely due to her VRS eligibility date**

Impact on Recruitment
External Competitiveness

	Local Governments	School Divisions	Total
5% (or more)	8	4	12
Phase-in	3	1	4
Decision Pending	**3**	**9**	**12**

Impact on Recruitment
External Competitiveness

Hire 100+ teachers
Last year-60% teachers hired with previous experience and nearly 40% with Virginia experience

<table>
<tr><th>Example : Base Salary $50,000</th><th>Salary with 6% Increase (1% Joint Board + 5% VRS)</th><th>Salary with 2% Increase (1% Joint Board + 1% VRS)</th></tr>
<tr><td>Currently Employed</td><td rowspan="2">$53,000 New Salary
VRS Contribution (-5%)= -$2,650
Employee Share FICA = -$2,995
New Total: $47,356</td><td>$51,000 New Salary
VRS Contribution (-1%)= -$510
Employee Share FICA = -$2,882
New Total: $47,609</td></tr>
<tr><td>Hired After June 30th</td><td>$51,000 Starting Salary
VRS Contribution (-5%)= -$2,550
Employee Share FICA = -$2,882
New Total: $45,568</td></tr>
<tr><td>RESULT</td><td>EQUITY MAINTAINED</td><td>A: $2,000 lower starting salary than 6% option
B: $2,041 less than currently employed with 1% option</td></tr>
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Administrative Impact - Efficient Systems

	5%	1% Phase – in
Scale Administration: develop (based on market data), implement, program system and communicate	1)Teacher VRS Eligible 2)Teacher Non VRS eligible 3) Classified	1)Teacher VRS Eligible 2)Teacher Non VRS eligible 3) Classified
Communication	3 Salary scales 1 VRS contribution rate	3 Salary scales 2 VRS contribution rates this year; will require additional communication next year

Administrative Impact - Efficient Systems

	5%	1% Phase – in
Salary determination & benefit calculations requires: •HR /Payroll System Programming •Manual calculating, tracking and keying ---200 changes in employment status (80% occur in August-October) --Dual job employees (two part time jobs)	1)5% for all VRS eligible staff-current and new hires 2) 0%- Part-time staff	1) 1% for all VRS eligible staff-current 2)5 % new hires 3)5% new VRS eligible (i.e. . PT to FT) 4) 0% Part-time staff

VRS Change Effects on Albemarle County

VRS Change Effects on Salary and Benefits

Salary	FICA*	VRS*	Group Life*	Health	Dental
~5% Increase	7.65% of Salary	Original: 17.77% of Salary VRS Adjusted: 12.77% of Salary	0.48% of Salary	Neutral Board Contribution: $6,745 Per FTE	Neutral Board Contribution: $301 Per FTE

*Benefits that are a percentage of salary

Employer (Albemarle County) Costs

SAMPLE EMPLOYEE: 5% VRS Increased Costs					
Scenario	Salary	FICA	VRS	Group Life	Total
Baseline	$50,000	$3,825	$8,885	$240	$62,950
Inc. 5% VRS and 5% Sal Adj.	↑ $52,500	↑ $4,016	↓ $6,704	↑ $252	↑ $63,472
Differentials	↑ $2,500	↑ $191	↓ -$2,181	↑ $12	↑ $522

Why Does the VRS Mandate Cost More?

Employer (Albemarle County) Costs

SAMPLE EMPLOYEE: $50,000 Base Salary					
Scenario	Salary Increase	FICA*	VRS*	Group Life*	Totals
Base Salary and 5% VRS Savings	$0	$0	-$2,500	$0	-$2,500
Costs Due to 5% Salary Increase	$2,500	$191	$319	$12	$3,022
Total Costs to Albemarle County	$2,500	$191	-$2,181	$12	$522
		7.65%	12.77%	0.48%	

*Benefits calculated as a percentage on salary

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*Benefits calculated as a percentage on salary

5% Option with 1% Salary Increase

(Employee Costs)

Example Employee	5% Increase
Original Salary	$50,000
Employee Share FICA*	($2,825)
Effective Original Salary	$47,175
Salary with 6% Increase (1% Joint Board + 5% VRS)	$53,000
VRS (New Employee Share)	($2,650)
Employee Share FICA*	($2,995)
Final Effective Salary	$47,356
Effective Increase in Salary	$181
Effective Salary % Increase	0.38%

* Based upon current employee FICA rates

1% Phase-In with 1% Salary Increase

(Employee Costs)

Example Employee	1% Increase
Original Salary	$50,000
Employee Share FICA*	($2,825)
Effective Original Salary	$47,175
Salary with 2% Increase (1% Joint Board + 1% VRS)	$51,000
VRS (New Employee Share)	($510)
Employee Share FICA*	($2,882)
Final Effective Salary	$47,609
Effective Increase in Salary	$434
Effective Salary % Increase	0.92%

* Based upon current employee FICA rates

VRS Option Costs

Board Options	5% Implementation	1% Implementation
Partial Reduction of 1% Salary	$790,771*	$167,635

*Staff Recommendation

Funding Recommendation

Staff recommends consensus to request the Board of Supervisors to adopt the 5% full-implementation option

- Maintains current competitive position for hiring
- Ensures consistent treatment of employees
- Specifically recommended by the Governor
- In principle it is supported by both local government and school division staff as a best practice

Fund Balance Contribution to CIP

ACPS School Board Meeting

May 7, 2012

Assumptions

- Unrestricted fund balance is currently designated for:
  - One-time expenditures
  - Emergencies
  - Additional revenue to close funding gap in operational budget

Contributions to CIP

- Contributions to CIP would be planned in the annual Superintendent and School Board funding request
- Fund balance contribution to CIP would not be designated to support specific projects or equipment (i.e. school buses)
- School Board could designate an available fund balance target as a percentage of the operating budget (2%) and a “ceiling” (4%)
- 2% target is not intended to be an absolute

Formula for Contribution to CIP

- "Available" fund balance =

  Total fund balance

  Minus "Encumbered" fund balance (sum of current year and budget year use of fund balance)
- <u>Should</u> fund balance grow, CIP contributions would be:
  - 40% of the annual growth in available fund balance above the target
  - 100% of the annual growth in available fund balance above the 4% ceiling
- There would be no contribution if available fund balance declines

Fund Balance History

Fiscal Year	Total Fund Balance	Current Year Use	Next Budget Year Use	Available Fund Balance	Avail FB as % of Budget
04/05*	$4,388,192	$2,298,206	$2,554,176	($464,190)	(0.37%)
05/06	$4,227,385	$2,554,176	$720,000	$953,209	0.67%
06/07	$5,578,927	$720,000	$871,546	$3,987,381	2.70%
07/08	$6,573,924	$871,546	$1,800,000	$3,902,378	2.58%
08/09	$6,438,779	$1,800,000	$1,800,000	$2,838,779	1.90%
09/10	$8,178,367	$1,800,000	$2,827,034	$3,551,333	2.49%
10/11	$7,554,405	$2,827,034	$1,800,000	$2,927,371	2.03%

*This fiscal year depended upon current year savings to fund the succeeding Fiscal Year

Examples of Potential Contributions to CIP

Fiscal Year	Available Fund Balance	Available FB as % of Budget	Fund Balance Increases?	CIP Contribution
04/05*	($464,190)	(0.37%)	NO	
05/06	$953,209	0.67%	YES	
06/07	$3,987,381	2.70%	YES	$1,213,669
07/08	$3,902,378	2.58%	NO	
08/09	$2,838,779	1.90%	NO	
09/10	$3,551,333	2.49%	YES	$285,022
10/11	$2,927,371	2.03%	NO	

*This fiscal year depended upon current year savings to fund the succeeding Fiscal Year

Fund Balance/CIP Contribution

Staff recommends consensus to develop a Fund Balance/CIP Contribution policy based upon the discussion of this proposal

Albemarle County Public Schools

Budget Update

May 7, 2012

Budget Update

- School Board Meeting April 26, 2012
  - Local Tax Rate = 76.2 Cents
  - CIP/School Bus Replacement
  - Current Funding Gap Recommendations
  - Requested Actions
  - Fund Balance Information

Current Funding Gap

(Updated Expenses, Local and State Revenues)

Current Gap	Amount
School Board Request	($3,739,306)
Maintain Commonality (reduce to 1%)	$825,226
Additional Revs from Local Transfer	$1,078,946
Additional Revs BOS requests for use of School Bus Replacement	$648,250
Addl. Expenses for Bus Replacement	($648,250)
Technical Adjustments for VRS	88,850
Additional State Revenues	$651,496
New Gap (w/ Equalized Tax Rate)	($1,094,788)

Considerations for Reduction (Tier 2)

Tier 2 Reductions	Amount
Administrative Assistant (Murray)	$24,134
Increase Work Days for 10-Month Transportation Employees	$35,574
Daytime Custodial Staff Needed at Larger Elementary and Middle Schools	$46,632
Improvement of End-User to Client Service Specialist	$144,816
Reclass. of School Nurse (FLSA Exemption Status and Compensation Increase)	$62,700
Total:	$313,856

Current Budget Recommendations

	Amount
New Gap (w/ updated State and Local)	($1,094,788)
Tier 2 Reductions (Revised)	$313,856
Updated Potential Funding Gap	($780,932)*

* Does not include action on new VRS implementation

Potential Considerations of Tier 1 Items

Tier 1 Initiatives			
Staffing Standards - Media	$13,028	FY 2012-13 Staffing Standards -AP	$68,401
Staffing Standards - Counselor	$32,573	Professional Development (Tech)	$100,000
ESOL Staffing	$65,145	Staffing Standards – Art, Music, & PE	$130,290
Continue Tech Support Initiative	$67,408	Response to Intervention (RTI)	$377,841
Total: $854,686			

Protected Tier 1 Items

Protected Tier 1 Initiatives			
Reduce Class Load in Grades 4 - 12	$1,115,282	Fuel Cost	$75,200
Liability/Auto Insurance	$5,000	Health & Medical Sciences Academy Staffing	$32,573*
CATEC Increase	$17,912	VRS	$4,268,238
Custodial Staff for Greer Addition	$15,543	Utility Costs	$96,582
Dental Increase	$35,970	Unemployment Insurance	$20,000
Teacher Salary Inc. (Remaining 1%)**	$530,030	PREP	$87,940
Classified Increase (Remaining 1%)**	$334,027	Legislative Liaison	$67,408
Growth	$474,896		
Total: $7,176,601			

* Seeking alternative funding

** Moved to Tier 1 protected to preserve commonality

Fund Balance Information

Fund Balance	Amount
Beginning Fund Balance (FY 11/12)	$7,554,405
Budgeted Use of Fund Balance (FY 11/12)	($2,827,034)
Additional Use of Fund Balance (FY 11/12)	($391,099)
Updated Projected Salary Savings (FY 11/12)	$1,500,000*
Projected Fund Balance (End FY 11/12)	$5,836,272
Current Budgeted Use of Fund Balance (FY 12/13)	($1,800,000)
Projected Available Fund Balance (FY 12/13)	$4,036,272

* Estimate includes updated salary numbers based upon payroll through February, just closed 4/25/12

Staff Recommendations

- Reduce current funding by the Revised Tier 2 Reductions – Saves ~$313,856
- Consider using Fund Balance to address current shortfalls
- Or provide alternative direction

Future Budget Discussion

- May 9 - VRS Implementation and partial FY 12/ 13 Resolution of Appropriations: Board of Supervisors
- May 10 – Adopt FY 2012-2013 Operating and Self-Sustaining Fund Budget
- June 6 – CIP review for potential adjustments: Board of Supervisors