COUNTY OF ALBEMARLE

EXECUTIVE SUMMARY

AGENDA TITLE: School Division Fund Balance and CIP Transfer Policy	**AGENDA DATE:** November 8, 2012
SUBJECT/PROPOSAL/REQUEST: Discussion of School Division Fund Balance and CIP Transfer Policy	**ACTION:** X **INFORMATION:** **CONSENT AGENDA:** **ACTION:** **INFORMATION:**
STAFF CONTACT(S): Messrs. Foley, Letteri and Davis, and Ms. Allshouse	**ATTACHMENTS:** Yes
PRESENTER (S): School Board **LEGAL REVIEW:** Yes	**REVIEWED BY:** J C Foley

BACKGROUND:
The Code of Virginia provides that "…unexpended School Division funds derived from the locality revert to the local appropriating body" and that "funds which have been reverted to the locality are not available for expenditure by the School Board unless and until they have been re-appropriated by the appropriating body."

The County's practice over the years has been to allow the School Division to maintain an unrestricted fund balance above and beyond the General Fund fund balance. A history of the fund balance is included in Attachment A. Any funds designated from the School Division's Fund Balance for the School Division's use are approved and appropriated by the Board of Supervisors as part of the budget process each year. However, additional fund balance beyond that requested for use during the budget process also remains each year and is available if the School system should request an additional appropriation. These remaining funds have typically not been requested for use by the School Division and therefore remain "idle" throughout the year.

This unrestricted fund balance is separate from other School Division-related fund balances, such as those fund balances associated with grants, nutrition programs, fuel reserves, and the textbook replacement fund. Currently, the School Division utilizes funding available in the unrestricted County School Fund fund balance as additional revenue for the following purposes: 1) to close funding gaps in their operational budget, 2) for one-time expenditures, and 3) to provide funding for emergencies.

The Albemarle County's Resource Management Review conducted by the Commonwealth Educational Policy Institute of Virginia Commonwealth University in February 2009 acknowledged this practice and recommended that the County and the School Board establish an appropriate unrestricted fund balance policy.

During the Board of Supervisor's March 2012 budget work sessions, the two Boards discussed the need for a policy. On May 7, 2012, the School Board discussed the creation of a policy (See Attachment B for the School Division's Fund Balance Policy-related presentation slides provided to the School Board). On July 12, 2012, the School Board approved a Fund Balance and CIP Transfer Policy (See Attachment C).

Attachment D includes a summary of the results of a survey conducted by the School Division regarding approaches of other jurisdictions for the management of School Division fund balances.

On November 8, the School Board will discuss with the Board of Supervisors the School Division Fund Balance and CIP Transfer Policy.

STRATEGIC PLAN:
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 and
Goal 1: Provide excellent education to all Albemarle County residents.

DISCUSSION:
Over the last several months, the Chairs and Vice-Chairs of the two Boards and local government and school division staff have met on a number of occasions to discuss the School Board's fund balance policy, possible revisions, and a local government alternative; however, they have been unable to agree on a recommended approach. (See

Attachment E for a comparison of the School Board's adopted policy and the Local Government's recommended alternative approach).

While the School Board's approach for a fund balance policy is a positive step forward, there is a concern that the approved policy is overly complicated and difficult to implement, and ultimately results in very little money going to the CIP to support School and Local Government capital needs. County staff believes the local government alternative approach is more in line with the Board of Supervisors original intent and would establish a reasonable fund balance maximum of 2%, simplify the calculation and provide additional funding to the CIP in a more timely manner. Regarding the proposed 2% fund balance maximum, Attachment A provides the School Division's planned and actual use of fund balance over the past seven fiscal years.

BUDGET IMPACT:
Based on the FY2011-12 unaudited year-end school fund balance of $8,221,783, the local government proposed alternative policy with a 2% maximum would result in $3,024,998 being retained by the School Division for their use and $2,406,014 being transferred to the CIP to meet School and Local Government capital needs.

RECOMMENDATIONS:
Staff recommends that the Board approve the local government alternative policy approach included in Attachment E and establish a clear percentage maximum for the School fund balance. Based on Board action, staff will provide a final policy for Board of Supervisors approval in December.

ATTACHMENTS:

A. School Division Unrestricted Fund Balance History
B. School Division's May 7 2012 Fund Balance presentation slides
C. School Board's July 2012 Adopted Fund Balance Policy
D. Survey Results
E. Comparison of School Board Adopted Policy and Local Government Recommended Alternative