A Special Meeting of the Albemarle County School Board was held on November 8, 2012 at 3:30 p.m., Room 241, Albemarle County Office Building, 401 McIntire Road, Charlottesville, Virginia 22902.

SCHOOL BOARD MEMBERS PRESENT: Mr. Stephen Koleszar, Mr. Jason Buyaki, Mrs. Diantha McKeel, Mr. Eric Strucko, Mrs. Pamela Moynihan, Mr. Ned Gallaway, and Mrs. Barbara Massie Mouly.

SCHOOL BOARD MEMBER ABSENT: None.

SCHOOL BOARD STAFF PRESENT: Dr. Pam Moran, Superintendent, Dr. Billy Haun, Assistant Superintendent for Student Learning, Dr. Matt Haas, Assistant Superintendent for Organizational and Human Resources Leadership; Mr. Josh Davis, Chief Operating Officer, Mr. Jackson Zimmermann, Executive Director of Fiscal Services, Ms. Lorna Gerome, Director of Human Resources; Mr. Chris Brown, Senior Assistant County Attorney, and Ms. Jennifer Johnston, School Board Clerk.

BOARD OF SUPERVISORS PRESENT: Mr. Kenneth C. Boyd, Mr. Christopher J. Dumler, Ms. Ann Mallek, Mr. Dennis S. Rooker, Mr. Duane E. Snow and Mr. Rodney S. Thomas.

BOARD OF SUPERVISORS ABSENT: None.

OFFICERS PRESENT: County Executive, Thomas C. Foley, Assistant County Executive, Bryan Elliott, Assistant County Executive, Bill Letteri, County Attorney, Larry W. Davis, Clerk, Ella W. Jordan and Senior Deputy Clerk, Travis O. Morris.

Agenda Item No. 1.1. Call to Order.

At 3:36 p.m., Ms. Mallek called the Board of Supervisors back to order, and Mr. Koleszar, Chairman, called the School Board to order.

Agenda Item No. 2.2. Follow-Up on Total Compensation Recommendations.

Ms. Gerome shared with the Board the compensation recommendations as brought forth in October. She also covered benefit recommendations. Ms. Gerome said that total compensation supports both Boards' goals to have a talented workforce so the County is able to keep, find and motivate employees in order to best serve citizens and students. She stated that the County's target for compensation is to be at the median of the market for classified staff, and the bottom of the top quartile for teachers. The County surveyed the 56 organizations in the Board-adopted market, including a few local employers. Since the last meeting with the Boards, she has checked in with five or six other Human Resource professionals to find out how they arrive at their compensation recommendations – and most do not really have a process like Albemarle's, and were very impressed with the process versus their method of picking a number and seeing if it sticks. After staff surveys the market, they look at where the County is relative to that data; this year the data determined the County to be right about at the market. She explained that because they project compensation recommendations for next year so early, they go to WorldatWork to get their data to show what projections are for the education sector and public administration sector. Ms. Gerome stated that they have been slightly below market –.35 – for a few years, and they have moved now by 1% with the market moving by a little less than 1.7%. WorldatWork is projecting 2.5% for the next year, so in following the strategy the County's salary increase would be 2.55% because they are right about at market. At the last meeting she shared the merit pay for performance program, which the County has not had the opportunity to award in a number of years. Ms. Gerome stated that if 2% were the number used, every employee that successfully met expectations would get that amount; for those above midpoint and consistently exceeded goals, they could get a higher percentage. This does allow for differentiation among performance. It also is consistent with the County's salary strategy to move employees quickly to midpoint, and then slow them down at midpoint, at market rate. She said that in looking at the teacher's scales, the County is in the top quartile at every anchor point for which they collect data – and the target is the bottom of the top quartile – and this year they are at market. The target is to have benefits slightly above market, built primarily on health insurance, with a goal of 105% of market – and balancing all of the elements is an art, with an effort to keep insurance affordable for employees while meeting the diverse needs of their families and individuals; maintaining a target of 25% for reserves; and compliant with healthcare reform. She reported that every year the Healthcare Executive Committee meets several times during this part of the year in order to thoroughly review claims data, as well as looking at market data on premiums, employer contributions, and plan design. Staff also wants to hear from employees as to what is important to them in the design of a health plan; that feedback has been obtained through focus groups, surveys, and many conversations – keeping an eye on the reserve balance. She said that staff will be bringing back recommendations to both Boards later in the year in terms of what the plan design changes will be for next year and what the exact premium amounts will be. She added that the County's plan year starts October 1st.

Mr. Snow asked if the County was also prepared to the private sector. Ms. Gerome replied yes. Staff works with a benefits consultant who provides the data from the private sector – both national and regional data. She added that they do a detailed analysis around local market data.

Mr. Boyd said that he had suggested before that some organizations were affording more salary increases by reducing their expenditures through passing costs onto their employees or reducing the value of the benefits plans, and asked Ms. Gerome if she had analyzed that to see if the County was in line with that. Ms. Gerome replied that staff has looked at that, which is what brings the balance into play when looking at the compensation and benefits sides. She said that when they evaluate the plan design changes in thinking about the impact on the employee, they have tried to do that in light of what they have been doing with compensation. She added that many of the plan design changes they have introduced in recent years have been based on what the market is doing, with the private sector leading that market and the public sector following.

Mr. Boyd mentioned the situation in Fluvanna where they have decided to furlough teachers in order to get more compensation, but they could show up in a salary survey as increasing teacher salaries by 3%. He asked if that gets factored in when the committee looks at WorldatWork? Ms. Gerome responded that they do ask that information of other employers. This year it did not come up as an issue as much as it had in previous years – 2009, 2010, for example, where there were reductions in hours and furloughs. Mr. Boyd commented that it should be easy to do that by asking about additional compensation dollars, and what increase that is over the previous year. Ms. Gerome said the staff will ask it in their survey next year, but analysis would need to be done to ensure they are getting the right number when asking that question. Mr. Boyd agreed, but stated there are a number of things that could be done – like increasing classroom sizes – to push the percentage of increases up. Mr. Rooker commented that he might not want to use Fluvanna as a comparable peer locality. Ms. Mallek said the furloughing is because of unexpected expense, and has nothing to do with increasing rates. Mr. Rooker said that they went down a road financially that they did not understand, and now have put themselves in quite a box. He added that the movement toward having employees pay larger shares of their benefits has gone back and forth over the years, and the movement now toward shifting it to employees "is a tax-inefficient approach," because the result is that the benefits side is tax free. He stated that they are trying to look at how they can use limited dollars to best increase employees' welfare. Ms. Gerome agreed. Mr. Boyd said that he also agrees, but he wants to be sure that the comparisons include all of the possible variables. Ms. Gerome stated that the cost-shifting also is an effort to get employees to be better consumers of their healthcare.

Ms. Gerome said that both the County Executive and Superintendent would be building budgets that continue to fund the 5% VRS member contribution to VRS for all employees. Staff will bring back more specific recommendations regarding healthcare – either in late winter or early spring. She stated that staff would like to strive for a 2% pay for performance increase for classified employees if revenues are available, and build the teachers scale to reflect the market moving 2%.

Mr. Thomas asked if there are any other localities moving to the 2%, and if there were any other situations like Fluvanna's. Ms. Gerome said that from the calls staff have made they have not been able to get concrete data, but Fluvanna is somewhat of an aberration from what staff has gathered – with most aiming for 2%, 2.5%, or maybe 3%. This is still very early in the process and getting good data at this point is a challenge. Mr. Rooker stated that he would be surprised if the market moved about the 2%, because most everyone had the 5 + 5 expense put on them last year – which is significant – and it is a continuing expense comprising a lot of money in the County's continuing budget going forward. He said that in reading financial publications, private industry is looking at 2%-2.5%.

Mr. Boyd asked what the state was doing. Ms. Gerome responded that the state is doing a 3% bonus. \ Mr. Koleszar said the state is doing that for this year, but have not determined next year.

Ms. Gerome said that local employers' plans were "all across the board," with some increases, some bonuses. Mr. Rooker said that he assumes that VRS was applicable to the bonus, as he is trying to figure out why they would do it that way. Ms. Gerome explained that the state saves a lot by doing a bonus because it does not go into base salary and does not affect retirement costs. Ms. McKeel said that the state likes to do that every year instead of giving raises. Ms. Gerome emphasized that it will not help them when they are trying to hire new employees.

Agenda Item No. 2.3. Five Year Financial Plan – School Fund.

Mr. Davis presented the School Division's five-year financial plan including current operational challenges, current instructional challenges, and watch-list items that could impact future budgets. The School Division has a list in terms of operational challenges, and the County continues to grow although revenues remain flat. He said that they are beginning to see revenues increase modestly, but enrollment growth may still outpace revenue growth to some extent. Local revenues are very important to the budget – comprising approximately two-thirds of the School budget. He said that compensation is vital to the workforce, and this model builds in five-year assumptions that drive expenses. He stated that they will also discuss bus replacements at this meeting, and they need to determine how it is going to be funded in the future. Regarding redistricting, Mr. Davis said that there were two active committees. The School Division believes that the most efficient way to address facilities needs is to use existing seats first. He stated that if there are students in the hallway at Agnor-Hurt and seats are available at Broadus Wood, Greer or Woodbrook elementary schools, they would be better off moving students. Mr. Davis noted that they will definitely move some students next year at Agnor-Hurt, and they are also looking at the western feeder pattern. It is less likely that they will move students from Meriwether Lewis next year, but they are looking at the full five-year horizon there as there is a lot of growth in the Crozet area, and it will impact Brownsville and Crozet. Mr. Davis said that the Capital Improvements Program ties to redistricting. The School Division feels confident that the projects they have put in the plan are the ones needed. He said that the VRS 5% raise is in place, and while it put a hold in the budget last year, new revenues would cover that first before any new initiatives. Mr. Davis stated that the continuing growth of the employer contribution looms for them. He stated that also looming is federal sequestration, so there is an assumption built in with regard to federal funds. On the instructional side, the State's Standards of Quality (SOQ) funding has never been totally fulfilled by the Governor and the General Assembly, but the schools were grateful last year when the legislators took the Governor's budget and increased it a few million dollars. The School Division has an increased number of students eligible for free and reduced lunch. They recently received the data on that to include as part of this analysis. He noted that they anticipated enrollment growth of just under 200 students, but there were 200 more students this year who were eligible for free and reduced lunch compared to the previous year. Mr. Davis said that this has an impact not only on the self-sustaining cafeteria plan but even more so instructionally, because the Division tries to focus its staffing and provide extra staffing to the schools with higher free and reduced lunch populations. Mr. Davis reported that the state has mandated online testing, and they have done that to some extent over the last few years with more will be done this year. He said that there are costs associated with that and it is something they want to make sure they get right. Mr. Davis stated that the Division would like to improve its world languages program. He said that there are languages that the Division does not teach yet that they would love to expose students to. Mr. Davis stated that graduation requirements have changed, and each student must take an online class now, and there is a new requirement for a personal finance course. The Division has entered into an agreement with the state to provide the finance course, and while although not a large budget item, it is an instructional challenge. Mr. Davis stated that something that might impact budgets is staffing at large elementary schools, as there are some such as Brownsville that are right at 700 and climbing. He said that their staffing formulas take them to 600, but they do not necessarily have the right staffing for specialists in regards to music and physical education. Mr. Davis stated that there is only one music teacher with some part-time help. He reported that in this analysis they have not changed their staffing formulas in any way, but there would be some change due to growth. The watch list, he said, reflects the ways that learning is changing. Mr. Davis stated that the Division has done a considerable amount to put technology in the classroom to equip teachers to be able to use the new tools available, as well as changing learning spaces – but resources will be required over the next year to continue to transform schools so students can be 21st-century learners who can participate in the global economy. Mr. Davis reported that the Safe Schools/Healthy Students grant program has been supported by both General Government and the School system expires after the next year, and the County had some initiatives in place to keep part of the program. He said that the Division has not made that assumption in its analysis presented at this meeting, but it is an initiative they want to look at this year. Mr. Davis reported that they were in the second year of the biennium for the Composite Index, and fortunately the index improved somewhat. He stated that their hope is that the index will not turn negative during the five-year planning horizon.

Mr. Boyd asked if the qualification criteria for free and reduced lunch have changed over the last few years, or stayed the same. Mr. Davis responded that it stayed the same; there are just more people in that threshold.

Dr. Moran said that the Board is seeing several things they have seen for several years now. There are a couple of new funding initiatives such as the Safe Schools/Healthy Students Grant. One of the biggest challenges the Division has is monitoring enrollment growth. She stated that when they talk to local government staff that is looking at growth patterns, they are anticipating continued growth in the Crozet and northern parts of the County. The Division is trying to adjust for that now with redistricting, but are also looking out five years to try to understand how the County will change and what the implications might be for the community and school sides. She said that the Division is trying to redirect funds to address areas that need to be advanced, or that have gaps needing to be closed. Mr. Davis reported that a few assumptions in the plan include retaining the option of altering class size to have fewer or more instructors; free and reduced lunch levels remaining constant; setting teacher salaries as discussed; and using the revenue analysis presented by General Government staff.

Mr. Rooker asked if a computation has been done on the cost of having an additional free and reduced lunch student. Mr. Davis responded that they could figure it out. Mr. Koleszar said that the staffing formula is that a non-free and reduced lunch student gets staffed at 21 or 22 to 1; free and reduced lunch students are staffed at 11 or 12 to 1. He explained that when Division did a redistricting they moved 30 kids from Stone Robinson to Stony Point, and all 36 of them were on free and reduced lunch – so Stony Point got three additional instructors. Ms. McKeel added that it is formula driven. Mr. Davis stated that if an the cost of a full time employee is $70,000, that would be divided by 10. Mr. Boyd commented that this was somewhat unique to Albemarle because they use a differential staffing, and that is not something used statewide. Ms. McKeel noted that that’s one of the reasons why Albemarle has been successful, because it is a driver for education quality. Dr. Moran added that it is a local decision to do that.

Mr. Davis reported that enrollment assumptions take into account a fairly steady increase of about 500 students over four years, with enrollment now at just under 13,000 students – and projections will mean a similar climb over the next five years of over 800 additional students. Mr. Strucko said that is a pretty linear growth rate, and asked what it was based on. Mr. Davis said that the rate is taking into account new housing starts and neighborhood developments as part of the equation, with a great deal of input from Community Development staff – including live birth rates and kindergarten entrance. He stated that the Division used a more aggressive survival rate, or set of averages over the last time period, for those schools versus those with flat growth. He said that when you sum up all 26 schools, you end up with growth.

Mr. Boyd asked about the accuracy of enrollment projections, as it looks as though the County had less students than expected this year. Mr. Davis responded that they had 20 less students overall in the whole system. Dr. Haas added that the projections run within a one percent range. Mr. Rooker noted that the economy can affect the number of students enrolling in private schools. Dr. Moran said that Mr. Davis monitors, along with senior staff, which students leave and where they go, who comes in and where they come from. Mr. Davis also pointed out that the Division is very stringent about not accepting students from outside the County unless they are the child of a County employee, and they pay tuition.

Mr. Davis reported that reference to "transfers" pertains to General Government transfer, a few other smaller ones, and the use of fund balance – as indicated by a five-year plan, the local data provided from General Government staff, and annual use of some fund balance. He noted that one of their goals is to drive annual use of the fund balance down, and in the five-year plan they predict $1.8 million for next fiscal year but less than $1 million from then on. Mr. Davis said they would like to be far less reliant on the fund balance, although it has helped them in the last two fiscal years getting through some pinches in the budget season. He reported that the state's second year biennium increased slightly, with 2% by year afterwards. Mr. Davis said that they are predicting an 8% decrease in federal funds over the next fiscal year, with slight increases afterwards. He noted that if it occurs, this would impact title programs such as Title I as well as special education funding. Mr. Davis added that it would also impact cafeteria staff, and decisions might have to be made about increasing lunch prices. He said that fee-based revenues, such as building rentals and activity fees, are expected to increase slightly for the next year and then by 2% thereafter. Mr. Davis then presented the anticipated revenues in each category and totals: Regarding expenditures, he said, there are operations and personnel expenses. Mr. Davis said that operating expenses (fuel, heating) comprise less than 20% of their budget, with an inflation factor of 1.5% annually. He stated that reductions made in previous years are not restored in these projections, and any one-time expenses in the current fiscal year are removed in the following fiscal year. In terms of salaries and growth, he presented the total of salaries for teachers and classified, and said that the enrollment growth drives the additional teachers – along with the increase in free and reduced lunch students. Mr. Davis said that the benefits include a 7% increase for health insurance for the next fiscal year, and annual increases of 8% - which are "pretty hefty." He said that dental insurance increases 7% annually, and group life is in a different group than General Government so schools are expected to hold steady at 0.48% over the five-year plan. Mr. Davis said that the VRS employer's share will impact everyone, and each biennium the Division expects that rate to go up by 2.5 percentage points. Mr. Zimmermann said JLARC suggested they get in the 20% range to pay back to VRS what has been owed to them over the long term, but this did not include the employees' 5% share. Mr. Davis stated that this is always a big political decision that the General Assembly makes every year. Dr. Moran said that the Division was expected to have a very large increase one year, and then received a VRS reprieve that put money back into the budget that they were not anticipating.

Mr. Rooker said that he read an article indicating that the VRS deficit was apparently much higher than they had thought, raised to $24 billion. He noted that there are bonds factored in that are not yielding what they used to.

Mr. Davis stated that in preparing the budget three years ago, it was tough times for everybody, and the Division made several adjustments to reflect that – and they did increase fees such as student activity fees for athletics and building rental fees, but most are reductions. He mentioned that the Division has a tight transportation system, but next year they may have to add a few busses back on the road to accommodate the influx of students. Mr. Davis said that if they have to make cuts again, it would be tough and would have to cut into instruction. He then presented summary totals of projected revenues, with transfer figures being slightly different to reflect things such as renting Monticello High School to CFA – but that might end after a couple years due to them building their new facility. He said that the state numbers climb gradually, but federal numbers dip down from $3 million and then climb back gradually. Mr. Davis said that the fund balance goes from $2.8 million down to $1.8 million and in future years could be less than $1 million annually. Mr. Davis commented that the schools appreciate the additional revenue through tax base increases, although assessments have gone down. He explained that the projection for General Government transfers a year ago was lower, but is now up slightly. Mr. Davis presented expenses as being about $154 million, increasing as high as $158 million, with a smaller increase for operations and a larger increase for personnel due to growth in enrollment, raises, and other factors – boosting it by $23 million over the next five years – along with VRS and benefit increases. He noted that what is being presented does not represent a balanced plan, and if all assumptions were to come true the Division would start the upcoming budget season in a hole of about $3 million – and the gap increases through the years of the five-year cycle.

Mr. Rooker said that in looking at the fund balance year by year, it would be projected use of fund balance versus actual use, and actual use is always substantially less than projected use. He stated that part of that is lack of budgeting of salary lapse, and asked what that was typically. Mr. Davis explained that they start the year with a holdback on expenses across operational departments and schools. They are going to do some further analysis to better understand the lapse. He said that for FY11, they spent 99.47% of the operational budget – and to come in less than budget is always good, as is coming in that close. Mr. Davis said that the School Division has always been within a 2% benchmark, noting that it is always questioned when they do not use it all but also when they do. Dr. Moran said that they do budget the lapse every year based on salaries. Mr. Zimmermann stated that they typically budget less than 1%. Mr. Davis said that the local government presentation indicated the County was going to budget more aggressively at 1.25%, and in talking with Ms. Allshouse she indicated that they had been under-budgeting.

Mr. Davis then presented a comparison of what the Division anticipated the shortfall to be for the first four fiscal years of the five-year plan, but conditions have certainly improved. He stated that to close the gap they will have to look at expenses, and with prior reductions the schools would have to turn to things such as class size and academic programs. Mr. Foley asked if the Division had factored in anticipated tax rate increases as discussed at the local government work session the previous day. Mr. Davis responded that it was reflected in the transfer figures, using the numbers presented, and in year three of the County's plan a 7/10th of a penny increase in the tax rate was anticipated. He said that they do not know any of the assumptions behind the numbers; they used the set of five numbers the County gave them – based on revenue projections. Mr. Foley clarified that local government did not provide numbers to the school system on a proposed tax rate increase until staff discussed it yesterday with the Board, so those numbers do not reflect the .7 increase in year three. Mr. Rooker said it would amount to about $500,000-$600,000 per year. Mr. Foley stated that with something such as a proposed tax increase, local government would give the 60% on the current rate until a potential increase is discussed with the Board. Mr. Boyd commented that it is not an approved tax rate increase, just an assumption. Mr. Rooker noted that assessments may or may not go down over the next two years, and if they do the .7% would recover about one-half of the lost revenue from assessments, so it is not an equalized rate. Mr. Foley confirmed that it would be about a $600,000 impact to schools beginning in the third year.

Agenda Item No. 2.3. School Bus Replacement Funding.

The following executive summary was forwarded to Board members: School bus replacement funding will be a topic of discussion during the joint work session with the School Board on November 8, 2012. The established practice and understanding between Local Government and the School Division is that the replacement of school buses is a component and responsibility of the School Division's operating budget. In fall 2011, the School Division submitted a request that school bus replacements be funded through the CIP and not through its operating budget. On December 14, 2011 and again on March 12, 2012 during CIP and budget work sessions, the Board of Supervisors and the School Board discussed options for funding school buses during joint meetings. As part of this proposal, the School Division stated it would transfer to the capital fund any revenues received from the State Standards of Quality (SOQ) funding formula for bus replacements, which is estimated at approximately $200,000 to $300,000 per year.

During the FY 13 annual appropriation process, the Board of Supervisors directed that funding for school bus replacements continue to be funded through the School Division's operating budget, and dedicated an additional $648,250 to help fund this expense in the School Divisions operating budget. During this fall's CIP cycle, the School Division again requested school bus replacements be funded through the CIP.

Currently, the School Division has more than 240 buses in operation and, based on a life cycle of 15 years, requires the purchase of approximately 15 buses per year at a cost of approximately $95,000 per bus. The purpose of this Executive Summary is to provide staff perspective on the School Division's proposal to transfer the obligation of funding school buses from its operating budget to the capital fund. A portion of the County's annual transfer to schools (60% of new revenues), together will State supplements from the SOQ funding formula, have comprised the sources of funding in the School Division's operating budget for the replacement of school buses. A transfer of the obligation for buses from the School Division's operating budget, without a corresponding reduction in the County's annual transfer, would shift the economic burden to the capital fund and free up resources in School Division operations for other purposes. Stated simply, a larger proportion of the County's gross revenues would be designated for School Division operations.

Despite historical treatment, buses meet the definition of a capital asset for which the Capital Improvement Program is intended to fund. Good financial practice and the very purpose for which a CIP fund is created suggests that critically required assets such as buildings, roads, apparatus, buses, etc. require consistent, reliable funding sources.

Staff believes that buses can be appropriately funded either though the School Division operation budget or the CIP, but that consideration should be given to the fact that shifting the burden from one funding source to another should also involve a corresponding reallocation of revenues to support such shift.

Transferring the cost for school bus replacements to the CIP, without the provision of full offsetting revenues, is estimated to result in an additional cost of approximately $1,200,000 annually in the County's CIP budget. This would reduce the amount of funding available for other CIP projects.

Staff recommends that if funding of school bus replacements moves to the CIP, that it be done only to the extent that an equal amount of revenue to fund those replacements is also provided by the School Division.

Agenda Item No. 2.4. School Division Building Capacity Methodology. Removed from agenda and rescheduled to a later date.

Agenda Item No. 2.5. School Division Fund Balance and CIP Transfer Policy.

The following executive summary was forwarded to Board members: 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 was provided 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 (Attachment B provided was 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 (Attachment C provided).

Attachment D included 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.

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. (Attachment E provided 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 provided the School Division's planned and actual use of fund balance over the past seven fiscal years.

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.

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.

Mr. Davis stated that the topic of fund balance and busses has been discussed for a number of years, and the goal is to be good stewards of public funds. He added that he thinks the School Division has done a great job at being careful with its money. He said that the fact that local government has a healthy fund balance, as do the schools, and they are not facing the issues that localities such as Fluvanna are because of this.

Mr. Davis said that the School Board would like to manage the unrestricted fund balance within a prudent operating range, and it is highly understood by both boards that the School Board has had years when it could have done other things with a portion of that money. The School Board has used its fund balance to close the gap in the operating budget, and they want to get to the point that that's done very minimally. Mr. Davis stated that when there is growth, they think a portion of the fund balance should be transferred to the CIP – and there is a variety of formulas and ways to address it. He added that the sharing of the fund balance and its growth does need to be formalized, and that is the intent.

Mr. Rooker said that members of the Board of Supervisors have individually looked at what the School Board proposed, which is a complicated formula that to him makes absolutely no sense. He stated that the Board came to the conclusion that what is needed is something very simple, such as a percentage of revenues or percentage of expenses. He said that Mr. Davis could certainly go into the complex formula, but there is probably no one on the Board that is going to buy into it. Mr. Rooker added that the discussion between the Board Chairs concluded that it was not the best approach.

Mr. Davis presented the history of the fund balance, noting that it has grown from about $4 million to $8 million over the last three years – with the last number being unaudited. He presented information on the School Division Fund Balance and the General Fund Balance, which on the local government side was being looked at for capital and reserve contingency funds. Mr. Davis stated that Schools use its fund balance for one-time expenditures such as the GPS system and driving simulators, and sudden unforeseen costs such as the VRS system that presented them with a bill of $800,000. He said that he is not sure they would have reached the same decision if the School Division had not had an adequate fund balance to pay that bill. Mr. Davis said that if the Division had gone to 1%, there would be 100 new teachers that would be taking home 4% less pay then they were today, and they may not have even been hired.

Mr. Rooker pointed out that there is no prohibition on taking money out of the capital fund balance or County fund balance to deal with that. He added that local government had the same expense to deal with. Mr. Snow noted that with the VRS expense, the Board approved an equalized tax rate with an extra one penny going to the County to help cover that.

Mr. Koleszar said that what Mr. Davis was referring to was the 5% VRS increase that did not take place until April. Local government had a $200,000 expense but the schools had to make available about $800,000, and because they have the fund balance they felt they could do that for that one year. Mr. Rooker said that is understood, but the School fund balance is $8 million. Ms. McKeel stated that Mr. Rooker makes it sound like having a savings account at that level is not a good thing. The schools have an $8 million balance while local governments' is almost $40 million. She thinks that both local government and the schools appreciate having a really good fund balance. Mr. Rooker emphasized that those two balances are not the same thing at all. He said that the $40 million, which is actually targeted for $28 million, is the amount of money auditors say the County must have on hand to pay bills during the year. Mr. Boyd said it is a cash flow, which also covers for the schools. Mr. Rooker said that the County's fund is used for schools as well as general government. Ms. McKeel stated that the schools' fund balance is what their financial advisors say they should have, although they do not provide a specific amount. She added that she also does not think that the County's financial advisors state that general government must have a specific amount. Mr. Rooker said that the best practices do stipulate a specific amount. Mr. Davis said that the fund balance also helps in years when the economy has a downturn and when local and state revenues do not meet the projections to meet appropriations. He stated that it is also used to close gaps in the operating budget. He provided an example that shows a gap of about $3 million – but in the last two fiscal years it has been much closer. Mr. Davis said that the Resource Management Review by VCU, which was done for the School Division and local government, stated that the schools should be allowed to maintain a fund balance above and beyond the general fund balance. He stated that the schools are a large business, and their expenses do fluctuate quite a bit – either for weather, substitute teachers, etc. – and it is harder for them to hit that budget target than it is for other organizations. Mr. Davis said that the recommendation was to negotiate between the County and the schools, which is what they are doing right now. He stated that a good approach would be to hold a maximum dollar amount in fund balance, and anything above that would be allocated between the School Division and general fund balances on a pro rata basis.

Mr. Davis stated that the schools would like to define an operating range for unrestricted available fund balance between 2% and 4% of the annual operating budget; anything above that would go 100% to the CIP. He said that any growth between the 2% and 4% would transfer, and no transfer when fund balance declines. That operating range allows the School Division to solve its own problems. Mr. Davis presented information on two years when there was significant growth - $6.44 million to $8.18 million. He said that the School Board-adopted policy considers first the current year appropriated use of balance, $1.8 million in both of those, and then wants to consider the next budget appropriated for two years of encumbrances – so what that would leave is an available fund balance of about $2.8 and $3.5 million in regards to growth in the available balance. Mr. Davis said that the School Board-adopted formula would transfer 40% of the associated growth to the CIP. He said that the Superintendent has an alternative, whereby available fund balance would not encumber two years but only the current year use of fund balance – so the available balance would now share a more significant amount of the growth. The formula is the same, it just encumbers one year. Mr. Davis said that the amount above the ceiling would be transferred at 100%.

Mr. Davis said that if there was simply a flat 2% ceiling, where everything above that moved to fund balance, the cumulative effect for the entire six fiscal years used in the projection would have been $625,000. He explained that the 2% would have taken a big chunk at first - $1.9 million – and it is unknown as to what decisions would have been reached after that. He explained that under the current projections, the unaudited fund balance is anticipated to be $8.2 million, and there is an appropriation for $2.8 million this year – for an available balance of $5.4 million. He said that this represents growth, so under the Superintendent's alternative there would be a transfer of $.3 million, allowing for 40% of the growth; the 2% ceiling would take $2.4 million right now; the 3% ceiling would take $.9 million. Mr. Davis reported that 38 localities across the state shared their approach: 16 spend to $0, especially in rural counties; more than one-half have some type of sharing – and 16 re-appropriate it for school CIP projects. Mr. Rooker noted that if it were paid over to the County's fund balance, that is what would happen – it would all go into capital. He said that typically schools have been 50% or more of CIP. Mr. Davis said that Prince William County's Board of Supervisors approved a $150 million carryover in the school budget, and about $100 million was committed to projects with another $58 million going to operating and construction; which is about 18% of their operating budget. He stated that Roanoke had a $5.3 million surplus, $2 million stays in an emergency contingency fund, and the rest goes to capital in agreement with their Board – with $2.2 million going to major capital and the rest to minor capital; that is about 4% of their budget. Mr. Davis said that if the 2% ceiling alternative is implemented, the schools would start the next budget season with only 2% available for the School Board to work with. He said there would be reduced incentive to save during the current fiscal year, and beginning next fiscal year the School Division would be coming to see the Board more often when unforeseen expenses arise.

Mr. Rooker asked about the reduced incentive to save. He asked if Mr. Davis was suggesting that if the money that is excess in schools is going to pay for capital projects that are both schools and general government that somehow they would approach their expenditure programs different. To him, that just seems completely inappropriate. He emphasized that they all have incentives to save money so they have money for capital and other things. He added that he does not appreciate seeing that on the presentation.

Mr. Boyd said that he wondered if in the examples Mr. Davis provided that the counties were the fiscal agent for the schools. He stated that the reason they keep the fund balance is so the teachers get paid in May, in October and November, because the revenues only come in twice a year to the County. Mr. Boyd said that the reason the County maintains its fund balance is for cash flow, and he does not see the business reason here because local government is covering those things for the schools. He cited that when the schools came up short last year, the County increased the tax rate and gave them the money. The Board has forever met the School Board's financial needs.

Mr. Strucko stated that the Board of Supervisors is committed to setting aside a certain portion of County resources for public education – 60% – and throughout the operations annually, the schools may use all of it or they may need slightly less or slightly more. He said that what the School Board is saying is that the commitment to public education should be maintained, and in those years that the school goes under its allocation for legitimate operating reasons, it should be able to carry that money over and retain it for public education purposes solely. Mr. Koleszar said that the School Division has the same policy for all of its individual schools, and if they do not use their allocation it rolls over into the next year.

Mr. Rooker asked if those funds are shown as being in the schools' fund balance. Mr. Davis and Mr. Koleszar responded that it is reflected in the fund balance. Mr. Davis added that it is going to be another encumbrance. Mr. Koleszar explained that the principals can save for a year or two to buy a big-ticket item they need, but if they are not going to be able to carry that money over they lose that incentive to save. Mr. Rooker asked how much of the schools' fund balance is made up of that. Mr. Koleszar responded that it is a small portion. He said that the schools have built up a fund balance because it has deferred items it would like to spend money on, such as one-to-one computer ratio. Mr. Boyd said that is a capital expenditure, not a fund balance expense. School Board members indicated that those are not capital expenses.

Dr. Moran stated that there is no disagreement that there needs to be a transfer mechanism from the School Division fund balance to the CIP to keep their money working for them, but the key is the process by which that is done. They are not trying to hold onto that money and just hoard that money. She said that the fund balance was built up because the schools have been "very tight" and have reduced costs in some areas.

Mr. Rooker commented that the Board of Supervisors approach things somewhat differently, citing the example of wanting to fund additional police officers. He said that the County has an approximate $7 million surplus, and it is not saying it is going to take $2 million to do something else with it. Local government is moving those funds over to capital.

Mr. Boyd noted that local government funds will go to school projects, County government projects, maintenance projects, etc.

Mr. Rooker said that the County doesn't say "oh, we've saved it and if we move it over to capital where schools are going to share in it that reduces the incentive to save". It is kind of a strange view. It really is not a "we are all in this together" view." He said that the Board is not saying it should move all of the fund balance to capital, what it is saying is that looking at the schools' history it has not raided its fund balance for large blocks of money year by year. Mr. Rooker stated that over one of the worst times the County has had financially, the schools' fund balance has grown. He said that if a dire circumstance hits, it is not as if the County would not look for a way to take care of those needs. Mr. Boyd said that is why the Board keeps 10% of its fund balance in reserve. Mr. Koleszar said that most of local government's fund balance comes from under-projected revenue. Board members disagreed. Ms. Mallek said that it also comes from reduced expenses during the year. Mr. Rooker stated that part of it has come from one-time collection of delinquent taxes. Ms. McKeel asked if that was shared with the schools. Mr. Rooker said the schools would if the money was directed to operating, but because both years are closed and it is a surplus, it moves into capital. Ms. McKeel asked what revenues the schools share and what revenues they do not share. She said that this year the Board of Supervisors is creating a performance incentive pool of $330,000, and that seems like something they could share. Mr. Rooker explained that this comes out of the County's portion of the entire budget, the 40%. Mr. Foley said that the incentive pool was created in the current year, and would be eliminated next year. Mr. Rooker reiterated that the County was taking it out of its 40%, from operating. Mr. Strucko asked if Mr. Rooker was raising the issue of whether the School Board should have a fund balance at all. Mr. Rooker responded, "no". He said that he is suggesting that an amount like the 2% would be a reasonably prudent fund balance, given all the circumstances that they are seeing here. He added that the schools have given a list of very significant capital projects that were not in last time, and there is some money now for capital that has not been there for the past three years – and it is one of the reasons the Board is seeing the need to put all of its' surplus into capital. Mr. Rooker said the Board is not suggesting that the schools do not maintain some reasonable reserve. He asked the School Board to keep in mind that local government pays the bills. The School Division is not maintaining the checking account that goes up and down based on paying bills during the course of the year. Mr. Strucko said the County writes the checks, but the schools do engage in planning and utilizing resources. He said that he does not know the actual utilization of fund balances, but it is less of a use than expected or projected. Mr. Strucko said that they see the engagement of the fund balance during the budgeting process when they are looking at best estimates of revenue, operating expenses and the programs that they want to fund. He stated that the School Board relies on the fund balance to balance its budget year after year. It is dwindling down, and the School Board continues to be concerned about how much is a reasonable amount for an operation of their size to keep them there, and that is where they came up with this approach. Mr. Rooker emphasized that the fund balance is not dwindling down, and that is the misconception. He reiterated that even with the worst five years in the County's recent financial history, that fund has grown. Mr. Dumler said that there is a built-in incentive for the School Board to spend it down, because every year in which it is spent down they are able to spend more of it. Mr. Rooker said that what the Board is suggesting is 2% of total planned expenditures, and it is not a growth formula. He stated that the County could have said it should have spent its surplus on operating, because otherwise it would have had to go into a fund to share with schools. He reiterated that local government is not doing that, so why should schools. Mr. Koleszar said that the question is what is the optimal number, and for this current year there is almost 2% budgeted – so if they implemented this policy, the schools would have to go to the Board and say they need $2.8 million more. Mr. Boyd said the School Division would have to come to the Board anyway to spend the money, so it is a matter of semantics. Mr. Koleszar said that with the current policy, the schools feel very comfortable that they can make decisions using that fund balance. If it is reduced they would have to be much more restrictive in the way they are thinking about what they need to do to help improve education for students. Mr. Rooker said that during budget the schools come in and say they are going to be $3 million in the hole, and then when they get to the end of the year they do not take it out of fund balance because they do not have the deficit they said they would have. Year after year that has not been the case. Mr. Strucko stated that the reserve represents the commitment by the County to public schools. Mr. Rooker said that the other 40% represents the commitment to everything else, and local government is taking its' surplus and putting it into capital. Mr. Boyd noted that 10% of the total budget is already being kept in reserves. Mr. Rooker said that the Policy Institute at VCU recommended a wise policy for the schools to have a separate reserve, because technically they are limited to 60% of revenues and if something goes wrong they might need it – but the question is what is a reasonable size for a fund balance? He reiterated that in his opinion, 2% is reasonable. Ms. McKeel stated that what the School Board has used is the 2% as the floor, and they do not want to go below that 2%. She said that they would also like to have an additional 1% to allow for some flexibility in the event they need it, without having to come before the Board. She thinks that there is a middle number that they could compromise on. Mr. Rooker said that local government has the same problem, with a targeted fund balance that must be maintained for everybody – and if they spend that down, they have to budget operating money to go toward that. He stated that if the School Board spent down its 2%, it is not like it disappears forever – it would have to start budgeting some money in the following years to build it back up.

Ms. McKeel stated that she thinks the sense of the School Board is that it would feel more comfortable with 3%, because it does not want to get in a position where it would have to cut classes or programs to send money to the CIP. Ms. Mallek asked if the schools would not come to the Board if there were that type of emergency, and asked what good it does to have 2% it is never going to use. Mr. Rooker said that he would be willing to go to 2.5% with everything above that going to capital. Mr. Boyd asked if the Board could reduce its fund balance to 9.5% to accommodate that. Mr. Foley explained that it needs to be undesignated per the County's advisors. Mr. Koleszar said that money is not actually transferred over to schools until January. Mr. Boyd commented that the County pays their bills for them. Ms. Mallek asked what 2.25% would do, and how much would be going to capital based upon this year's money. Mr. Davis said that 2% would be $2.4 million; 3% would be $0.9 million; 2.5% would be $1.65 million; and 2.25% would be about $2 million at that rate. Ms. McKeel stated that she would feel comfortable at 2.5% if the School Board could stop paying for school busses out of operations, and instead pay them out of CIP.

Mr. Strucko asked if the School Board members had deliberated among themselves on this.

Mr. Snow said that there have been several meetings on this issue with the Chairs and Vice Chairs, and the Boards are exactly where they were then. He does not know if another hour of discussion or two hours of discussion is going to change anything.

Mr. Boyd said that he is not ready to accept 2.5%, and the Board should have a discussion as to whether it will accept the proposal being made by the School system. The Board can have that discussion at one of its regular meetings. Mr. Rooker noted that there is no support by the Board for the 3% recommendation.

Mr. Koleszar said that the major difference in the Superintendent's alternative policy from that of the School Board is that the School Board included encumbering the current and the following year; therefore the actual available fund balance was less. In the Superintendent's proposal, they only encumbered the current year. Mr. Foley commented that there were other differences as well. Mr. Koleszar stated that they have had a policy in place for over 17 years and it has been helpful in terms of being successful with the kind of school system they have developed. He agrees that sometimes the fund balance has gotten too big and needs to be spent, but they were "throwing the baby out with the bathwater" because there is this excess amount at this time. Mr. Rooker disagreed, stating that they should set a reasonable reserve balance based upon the needs of that fund and what it is actually drawn down for, and the excess is paid to capital. He noted that for several years the County held back on needed capital projects, while the schools had a significant fund balance. **(Note: Mr. Snow left the meeting at 5:16 p.m.)**

Mr. Koleszar said that the $8.2 million, given encumbrances, is only $5.4 million. Mr. Boyd said that in looking at the last nine years of fund balance use, the highest the schools ever used was one-half percent of its fund balance - $600,000. He asked why they even need 2% based on what they have done historically. Mr. Rooker stated that the Board needs to have some work time set aside to further discuss this issue. Ms. Mouly said that she would like to know where the Board is headed, in order to inform the School Board's discussion. It seems the Board of Supervisors is divided. The School Board has not been cognizant of the Board of Supervisors' thoughts on this issue. Ms. Mallek responded that in the chair/vice-chair meeting, there was no interest in anything but a flat percent. She also said that they were much closer to the 2%. Ms. Mouly said that the other discussion is where to include the busses. Mr. Rooker stated that they did not really start that discussion today. Mr. Boyd said that he agrees that the busses are truly are a CIP item, but there should be some funds from Schools to cover them. He added that he has listened to the arguments today, but he is currently advocating for a 0% for school reserves, but he is willing to discuss it. Mr. Buyaki said that they would be looking at a Fluvanna situation. Mr. Boyd said that the County government did not hold a 10% reserve for contingencies which is the big difference. Mr. Buyaki said that the Board does not want the School Board to come to it and ask for money. Mr. Boyd stated that the School Board has to do that anyway. Ms. Mouly said that is done once a year. Mr. Dumler said that he could not justify it on a case by case balance, as he does not want the Board to assume the statutory obligations of the School Board. Mr. Rooker agreed that the majority of the Board supports the schools having a reserve, but the question is how much should be maintained and how much should be paid over to capital if there is an excess. Mr. Boyd stated that he believes in reserves, but in the annual process each year, money is appropriated from the fund balances – and decisions must be made as to whether reserves should be used to cover operating expenses. Mr. Rooker said that the Commonwealth Policy Institute indicated that a best practice is for School Boards to maintain some reserve, and he agrees with that. Mr. Thomas said he supports 2%, and feels the school busses should be discussed further at another time. Mr. Koleszar said that the Institute's study also said that a partial funding of CIP should be kept with the department as the optimal way to go. That is how the School Board developed its formula. Mr. Rooker said if the School Board kept 2%, they would be maintaining reserves, and he is not sure they understood that the capital would be paying for school projects. Mr. Boyd noted that not many school systems and county governments operate with the same fiscal agent. Ms. McKeel said that the capital expenditures have been about 50% for schools, not the "lion's share." Mr. Boyd stated that debt service must be accounted for as well. Mr. Koleszar said that it is cheaper on school projects which are why school projects are funded by debt projects and County projects are funded out of current capital. Mr. Rooker stated that the Board needs to discuss this further at an upcoming meeting. Mr. Koleszar said that ultimately this is a Board of Supervisors policy and was developed at the Board's request. It would have been good to have some guidance before then. Mr. Rooker and Mr. Boyd stated that the chairs meetings should have provided some. Mr. Strucko noted that there were community advisors and a committee helped to develop the numbers and assumptions. They individuals were people from the Darden School and UVA's Commerce School – people with business acumen, who suggested there should be money in reserves. Mr. Rooker said that he questions whether they were looking at overall County reserves, or just the schools as if they were a separate operation – because that is a whole different situation. Mr. Boyd responded that it definitely would be. Mr. Foley asked if the Board wanted this on its December agenda. Board members agreed that they did.

Agenda Item No. 3.1. Other Matters Not Listed on the Agenda. None.

Agenda Item No. 4.1. Adjournment.

At 5:56 p.m., Mr. Koleszar recessed the School Board. Ms. Mallek offered a **motion** to adjourn the Albemarle County Board of Supervisors to November 14, 2012, 4:30 p.m., Lane Auditorium. Mr. Dumler **seconded** the motion. **Roll was called and the motion carried by the following recorded vote:**

AYES: Mr. Thomas, Mr. Boyd, Mr. Dumler, Ms. Mallek, and Mr. Rooker.
NAYS: None.
ABSENT: Mr. Snow.

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Chairman

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Clerk