Date: January 5, 2012

For ACTION X 01/12/2012

For INFORMATION X 1/5/12

Board Agenda: Yes X
No ____

FROM: Margaret Barkley Byess, Deputy Superintendent, Support Operations

THROUGH: Morton Sherman, Ed.D., Superintendent of Schools

TO: The Honorable Sheryl Gorsuch, Chair, and Members of the Alexandria City School Board

COPY: Executive Staff

TOPIC: School Board Resolution on the use of the Virginia Retirement System (VRS) set aside funds

BACKGROUND: The Governor's proposed budget includes a substantial increase of the VRS rates from FY 2012 to FY 2013:

- VRS professional: from 11.33% to 16.66%, an increase of 5.33 percentage points
- VRS non-professional: 7.53% to 10.23, an increase of 2.7 percentage points
- VRS RHIC: 0.60% to 1.11%, an increase of 0.51 percentage points
- VRS Life: from 0.28% to 1.19% or 0.91 percentage points

The size of these increases is partially due to the very low VRS rates adopted by the Virginia legislature over the past several years of difficult budgets. The low rates were acknowledged as necessary for budgetary reasons, with the intent to repay in full when it was possible to do so. The higher rates are now necessary to ensure the continued financial viability of the Virginia Retirement System, and they impact all localities, school divisions, and the state government.

The substantial increase in the VRS rates proposed in the Governor’s budget results in a $6.9 million cost increase for ACPS. It represents approximately 78% of total operating fund benefit cost increases and is equal to 130% of the total increase in the operating fund budget. At the same time achievement, programmatic, and growth requirements at ACPS are also exerting budgetary pressure, as described in Attachment A.

Due to these challenges the Board is being asked to consider adoption of a resolution (Attachment B) authorizing the transfer of $1.2 million from the committed fund balance category to the unassigned fund balance category to partially offset the substantial cost increase due to VRS rate changes. This amount will then be used as beginning balance for FY 2013.
If the FY 2013 final state budget as adopted by the General Assembly contains lower VRS rates than those in the Governor’s proposed budget, all such savings will be returned to the VRS set-aside funds in the committed fund balance category.

This proposed resolution modifies and supercedes the Board’s June 2011 fund balance resolution setting aside $3.9 million of its June 30, 2011 fund balance to fund future increase to the VRS contribution rates. Use of any portion of the VRS set-aside committed fund balance, for any purpose, requires a separate resolution of the Board. These actions are in accordance with the Governmental Accounting Standards Board requirements (GASB 54) on fund balance disposition and reporting.

The attached fund balance resolution will be discussed at the January 5, 2012 School Board meeting and presented for Board adoption on January 12, 2012 after incorporating any changes requested by the School Board. If necessary, the Board will adopt a new fund balance resolution before approving the FY 2013 final budget in May 2012 to capture changes from the state final budget.

**RECOMMENDATION:** Review and discuss the attached fund balance resolution for the January 5, 2012 meeting and approve it on January 12, 2012.

**CONTACT PERSON:** Margaret Barkley Byess

Attachment A: FY 2012 Budget Preview
Attachment B: Fund balance resolution
Students, Parents, Teachers, Principals, and School Board:

Tonight I want to share with you a preview of our budget proposal for FY 2013. At ACPS, our focus has been consistent over the past four budget cycles. We are investing in people – our students, teachers and other employees. Yet, even as I am required to present a budget which is best for our students, our budget must be developed in light of the educational and economic indicators which are the harsh realities. The proposed budget is not a stand still budget... It can't be; that would be wrong for our students and our city.

As a nation, we must determine how to move forward in a period of slow growth, with lower levels of service from the public sector. This issue is faced at all levels of government. How do we shift from the expectation of many generations when government returned much to society to our current significant constraints on what government can do with increasingly limited resources?

When I began working on my first budget in August, 2008, we were entering a period of economic fragility that has been historic in length and severity. From 2000 to 2010, income per capita has declined at a compound annual rate of 0.7% or a total decline of 6.4%. Per capita income in 2010 was lower than it was in 1998.

We are proposing to spend less money per student...with a sharp focus on our core mission. Our operating fund expenditures per student will continue to decline, with an anticipated decrease of another 1% from this year to next, for a total cumulative decrease of almost 4%. However, the cost of doing business has continued to rise. Fuel prices, utilities, materials, and employee benefit costs are among the areas where costs are increasing. When we account for changes in prices, our operating expenditures per student have declined by almost one-quarter from 2008 to 2012, a decrease of approximately $5,300 per student in real terms.
In this, my fourth budget proposal for ACPS, we again pledge to focus on student achievement and to make difficult decisions to achieve this goal. During our budget development process, the ACPS central office and school leaders committed to the following principles:

- To ensure that each and every student achieves at the highest level and that the achievement differences among our students are closed
- To achieve this, we will:
  - Support our staff as we hold them accountable to being effectively focused on the learning of all our students
  - Target every resource, whether it be people, materials, or services, on the above priority
  - Use data and the ACPS learning model for decision making

This year’s budget development process involved principals and central office staff. All principals and central office staff have been briefed on the key changes, and most have been involved in the decision-making on these changes.

Our FY 2013 budget proposal contains some significant programmatic changes, which are highlighted below. A detailed, formal proposal of the FY13 budget will be presented to the School Board at its January 19th meeting.

Proposed Investments

Student Success:
- Extend learning opportunities for all our schools
  - Our current modified calendar schools (Tucker and Mount Vernon) will continue the modified calendar schedule but reduced from five to three weeks
  - All other schools will be given the opportunity to continue to make systemic changes needed to help all students succeed. Schools will submit proposals to extend the school day or year to address their academic achievement needs, as defined in their School Education Plans and the division’s strategic plan. Schools that apply for these funds and wish to operate on a modified calendar will pursue a two to three-year phased approach to full implementation
- Support for our secondary students who need flexible and extended learning opportunities
- Conversion of the 21 hours of additional time to three additional contract days for professional learning. Teacher contracts will be 197 days next year and our students will attend school for 185 instructional days.

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<th>Ethnic Breakdown as a Percentage of Total ACPS Enrollment</th>
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<td>FY 2009</td>
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<tr>
<td>American Indian</td>
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<td>Asian/Pacific Islander</td>
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<td>Black</td>
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<td>Hispanic</td>
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<tr>
<td>White</td>
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<tr>
<td>Unspecified</td>
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- Maintain prekindergarten classes funded in the FY 2012 budget
- Continuation of our current small elementary class size ratios, the low secondary class sizes, and the low student/counselor ratios at our secondary schools
- Support for ELL students with revised staffing formulas to accommodate shifting student population. ELL student growth has leveled out after several years of growth.
- Implement the revised secondary program of studies
- Support for special education students, with revised staffing formulas to accommodate shifting student population, without a reduction of overall special education staffing. Special education student enrollment has decreased again in the current year, for a total decrease of about 200 students over the past four years
- Centralize tutoring funds. Each school will submit a proposal describing their school need for and approach to the use of tutoring funds. These proposals must be aligned with their School Education Plan
- Establishment of our Family and Community Engagement sites
- Expansion of online learning opportunities during the school year and summer, for both credit recovery and accelerated and expanded course offerings
- Expanded dual enrollment opportunities for students at TC Williams
- Establishment of a competitive funding process for our external partners so their work is focused on the highest ACPS priorities and is measured by the effectiveness of their programs

Reprogramming of existing expenditures:
- Elimination of elementary and secondary summer learning except for K-Prep, ELL, Extended School Year (ESY), and Credit Recovery
- Elimination of non-essential travel in most school and department budgets
- Initiate out-sourcing of security monitor positions, through attrition, and continue outsourcing custodial services through attrition
- Reduction of partnership funding as we streamline and focus the partnership grant application process. Each community partner will be asked to submit a proposal to provide services based on the goal of improving student achievement
- Reduction of existing funds and positions to cover rising costs in other areas
Staff:
- A salary increase for all eligible staff
- Leadership development targeted at supporting urban school principals and school leaders
- Focused and intensive professional development on reading instruction and effective instruction to ensure the success of all our students
- Continuous refinement of a coaching model that will support the further implementation of the ACPS 21st Century curriculum and the ACPS Learning and Teaching certificate for all teachers and educational administrators

Sharing the burden of cost increases in benefits:
- A substantial increase in the cost of VRS retirement benefits is funded. The Governor's budget proposes to raise the VRS rate to 16.66% from the current rate for professional employees of 11.33%. Cost sharing with Plan 1 employees is not an option allowed by the state, however the contribution by Plan 2 employees may be increased. To help offset VRS rate increases, we propose to raise the Plan 2 employee contribution from 1 to 2%.
- Cost sharing in the higher rates for life insurance benefits as allowed in the Governor’s budget proposal
- Continuation of the current cost sharing between ACPS and employees while covering increases in health benefit rates

Some research indicates that it takes 3-5 years to change an elementary school, 5-7 years to change a secondary school, and there is little research on how to change a whole school division. We do know that school divisions who have pursued the Baldrige quality award have taken about five years to earn the award -- and we have evidence that we are on the right course. There is also evidence that we have much more to do.

In Preparation for the Budget Proposal on January 19

The calendar committee will continue to work on the traditional and the current modified calendars for school year 2012-13 as well as developing an alternative modified calendar if the proposed changes were accepted by the board.

To facilitate finalization of the budget, it is requested that the Board act on approving the use of $1.2 million of the $3.9 million VRS set-aside for the FY 2013 proposed budget. As a result of the Governor's proposed changes in VRS rates, ACPS may have to absorb an additional $9 million in FY 2013. We have reduced expenditures to accommodate for all but $1.2 million of this increase. Board approval for the use of $1.2 million from the funds, which were set aside for this purpose, will allow me to present a balanced budget without making further reductions. This leaves $2.7 million in the Board's VRS set-aside funds, which is sufficient funding for the next two fiscal years beyond FY 2013.
ALEXANDRIA CITY PUBLIC SCHOOLS
Fund Balance Resolution of the Alexandria City School Board

WHEREAS, the Governmental Accounting Standards Board (GASB) statement No. 54 establishes a hierarchy of fund balance classifications based primarily on the constraints placed on resources reported in those funds;

WHEREAS, the Alexandria City School Board adopted on June 9th, 2011 a fund balance resolution under the terms of GASB 54, setting aside $3.9 million for future VRS rate increases;

WHEREAS, the June 9th, 2011 fund balance resolution states that the use of any portion of this amount for any purpose must require a separate resolution of the Board;

WHEREAS, the Governor’s proposed budget includes a substantial increase in the VRS rates from FY 2012 to FY 2013 as follows:

- VRS professional: from 11.33% to 16.66%, an increase of 5.33 percentage points
- VRS non-professional: 7.53% to 10.23, a rise of 2.7 percentage points
- VRS RHIC: 0.60% to 1.11%, an increase of 0.51 percentage points
- VRS Life: from 0.28% to 1.19% or 0.91 percentage points higher

WHEREAS, the substantial change in the VRS rates results in a benefit cost increase of $6.9 million, or 3.7% more than the total FY 2012 final budget;

WHEREAS, the guidance from City Council for the increase in the City appropriation for the FY 2013 proposed budget is 2.24% for a total increase of $3.9 million, or $3.0 million less than the VRS cost increase;

WHEREAS, substantial other reductions have already been incorporated into the FY 2013 proposed budget;

NOW THEREFORE BE IT RESOLVED the School Board hereby authorizes 1) the transfer of $1.2 million from the committed fund balance category to the unassigned fund balance category to help cover a portion of the increased VRS costs, as included in the FY 2013 Governor’s proposed budget, and 2) that this amount may be used as beginning fund balance for FY 2013;

RESOLVED that, if the FY 2013 final state budget as adopted by the General Assembly includes lower VRS rates than currently included in the Governor’s proposed budget, all such savings must be added to the VRS set-aside funds in the committed fund balance category.

This Resolution is adopted by the Alexandria City School Board this 12th day of January, 2012.

______________________   ______________________
Board Chair     Clerk of the School Board