

Response to Questions on the FY 2017 Budget

Request By: Supervisor McKay

Question: According to “FY 2017 Preliminary Forecast Projections Estimates as of April 27, 2015” handout given to the Budget Task Force, FCPS was expecting a \$19.5 million reduction in state revenue and a \$5.5 million increase in sales tax revenue – for a net loss of \$14 million. We now know state funding, combined with sales tax, is a \$21 million increase. Do these changes reflect a \$35 million positive swing in state funding? If not, please explain.

Response: The following response was prepared by Fairfax County Public Schools (FCPS):

Background

The preliminary fiscal forecast for FY 2017, as of April 27, 2015, projected a \$19.5 million reduction in state aid and a \$5.5 million increase in sales tax revenue for a projected net loss of \$14.0 million for the School Operating Fund. This \$19.5 million projection was a placeholder based on the anticipated loss of a \$4.7 million compensation supplement that the state provided as limited-term funding for FY 2016, and a reduction of \$14.8 million due to the anticipated increase in Fairfax County’s local composite index (LCI). In April 2015, the actual change in LCI for the 2016-2018 biennium was not yet known so the projected loss was estimated. Holding all other variables constant (assuming no technical or policy updates to the state’s funding formula) the loss due to LCI was estimated to be \$14.8 million.

Throughout the year, fiscal forecast updates were made as more information became available. In the fall of 2015, the state recalculated LCIs and Fairfax County’s LCI increased from 0.6807 to 0.6844. The state also rebenchmarked costs and made policy and technical updates to its distribution formula. The Virginia General Assembly’s Conference Report (2016 Session), released in March 2016, includes policy and technical updates that would not have been known when the April 2015 forecast for FY 2017 was prepared.

Factors Affecting Budget Projections and Other Considerations

The increase of \$21 million referred to in the question is a comparison with FCPS FY 2017 Advertised Budget, and therefore we cannot view the recently released increase in state revenue as a cumulative increase of \$35.0 million above FY 2016 funding. For example, FCPS initially estimated a loss of \$4.7 million in limited-term incentive funding; however, the state later announced a new compensation supplement for FY 2017 totaling \$4.4 million. We would not count this as a \$9.1 million increase from FY 2016 funding. Instead, the year-over-year change in compensation supplement funding is a net loss of \$0.3 million, not the full \$4.7 million originally projected. The state’s later decision to offer a new compensation incentive for FY 2017 results in less of a loss than originally projected in April 2015. The following chart shows the changes in state funding projection from the FY 2016 Approved Budget to the FY 2017 Advertised Budget.

(\$ in millions)	FY 2016 Approved	FY 2017 Forecast 4-27-15	FY 2017 Forecast 8-31-15	FY 2017 Advertised	FY 2017 Conference Report (1) 3-16-16	Change FY 2016 Approved to FY 2017 Conference	Change FY 2017 Advertised to FY 2017 Conference
Basic Aid	\$ 404.8	\$ 389.4	\$ 395.8	\$ 404.8	\$ 417.0	\$ 12.3	\$ 12.3
Sales Tax	182.3	187.8	191.4	187.8	192.4	10.1	4.6
Total	\$ 587.1	\$ 577.2	\$ 587.2	\$ 592.6	\$ 609.4	\$ 22.3	\$ 16.8

(1) Adjusted for ADM and sales tax using local projections

(2) Data for School Operating Fund

As an integral part of the annual budget process, FCPS' fiscal forecast is regularly monitored and periodically updated based on the most recently available data and historical trends with underlying assumptions and methodology. Historically, LCI has played a significant impact on FCPS' state budget, as indicated in the last three biennium 2008-2010, 2010-2012, and 2012-2014. The preliminary projection in April 2015 considered two factors available at the time of projection: loss of the FY 2016 compensation supplement and the anticipated LCI increase. As new information became available in November 2015, staff updated the projections in basic aid with to be level with the prior year. The underlying assumption of level basic aid was that the loss of LCI and one time reduction would mostly offset by the rebenchmarking updates, excluding unknown factors in November about the state's new initiatives, policy changes or technical changes. When the Governor's Introduced Budget for the 2016-2018 Biennial was released in December, 2015, FCPS' projection in state aid was very close to the bottom line, excluding impacts from new initiatives, new policies or other technical updates that were not part of the originally assumptions.

When the General Assembly adopted the state 2016-2018 Biennial Budget in March 2016, new initiatives, such as Cost of Competing Adjustment of \$5.6 million, 2% salary increase of \$4.3 million, and Lottery PPA of \$3.0 million, increased the state funding to FCPS. All these initiatives are beyond any known factors available in November 2015 when the FY 2017 Proposed Budget was compiled. This also explains the level of difficulty in projecting state funding in early stage with uncertainties. The new initiatives from the General Assembly's adopted state Biennial Budget became available in March 2016, and the impact of state budget will be incorporated into FCPS' FY 2017 Approved Budget in May.