

Response to Questions on the FY 2014 Budget

Request By: Supervisor McKay

Question: In the FCPS budget, provide a summary of the one-time balances used in development of the FY 2013 and FY 2014 budgets. Also, provide a summary of the amount unspent at year end that was carried forward for use in FY 2013 and FY 2014 budget development. Identify spending by quarter with emphasis on comparing the fourth quarter spending level to that seen in the first three quarters for the last five years.

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

To mitigate state budget reductions, in FY 2011 the General Assembly adopted a significantly lower than actuarially recommended Virginia Retirement System (VRS) rate and deferred employer contributions for school divisions. In order to meet this future obligation, FCPS set aside \$45.0 million in recurring VRS savings in a reserve. Recurring funds available in FY 2012 were added to the VRS reserve bringing the total to \$60.6 million. Reserve funds were used to pay the rate increases in FY 2012 and FY 2013. The remaining \$16.9 million will be expended in FY 2014.

In addition to the VRS reserve, FCPS has utilized a budgeted beginning balance to meet anticipated future budget year shortfalls. A budgeted beginning balance is the result of conserving resources and reducing spending during the fiscal year where possible. As a result of these actions taken during the fiscal year, the net funding available at year-end is presented to the School Board as an available balance after commitments. Recently, this funding has been allocated for beginning balance for the next or for a future budget year instead of being spent for current year needs. However, reliance on one-time funding for recurring needs has created a structural imbalance in the budget. This imbalance will grow in future years because the VRS reserve is depleted and the retirement rates are increasing. The chart below shows the use of one-time funding since FY 2011.

One-Time Funding Used (\$ in millions)			
	Beginning	VRS Reserve	
FY	Balance	1-Time Use	Balance
2011	\$53.5	\$0.0	\$45.0
2012	\$57.3	\$0.0	\$60.6
2013	\$57.5	\$43.7	\$16.9
2014	\$65.7	\$16.9	\$0.0

Regarding unspent funds, because of the requirement to operate within a balanced budget, state and local governments typically end the year with an available balance to ensure that they meet revenue projections and do not exceed expenditure appropriations. As a result, FCPS, like Fairfax County Government, historically has ended each fiscal year with an ending balance. Included in the ending balance is carryover for encumbered obligations or undelivered orders which reflects orders for goods or services that have not been received or performed as of June 30. In addition, FCPS has a carryover policy that allows schools to automatically carryover unspent funds in certain noncompensation

accounts. This encourages multiyear planning and provides flexibility to principals to meet student needs. The specifics of what is included in automatic carryover may change from year to year depending on budget circumstances. Automatic carryover also applies to project and grant balances in the operating fund because they are budgeted on a multiyear basis. Automatic carryover for schools in FY 2012 amounted to \$26.4 million; however, these funds are not used to balance the budget. Attachment A provides further details, including definitions, of the items comprising the FY 2012 ending balance. The FY 2012 Year-End Budget Review is available at:

<http://www.boarddocs.com/vsba/fairfax/Board.nsf/goto?open&id=8WCHMC4917BA>

Below is a chart that shows the percent of budget expended by quarter for the last five years. For FCPS, spending is uneven among quarters within the year, but fairly consistent across years. In the first quarter, expenditures are lower because of the summer break for schools. Spending tends to peak in the second quarter, which is when most transfers to other FCPS funds are made. Transfers are made from the School Operating Fund: to the Grants and Self-Supporting Programs Fund for FECEP and summer school; to the Construction Fund for equipment for new construction and renovation and for building maintenance; to the Consolidated Debt Service Fund for debt service on the consolidated administrative building; and to the Adult and Community Education Fund for the adult English for Speakers of Other Languages program. In FY 2012, transfers were delayed until the third quarter due to the implementation of FOCUS. Transfers in the last five years averaged nearly \$30 million.

FCPS Percent of Budget Expended by Quarter

Quarter	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Quarter 1	15.8%	15.4%	15.2%	15.1%	14.9%
Quarter 2	29.1%	28.9%	29.7%	28.3%	27.6%
Quarter 3	27.5%	27.5%	28.0%	28.0%	30.1%
Quarter 4	27.6%	28.2%	27.2%	28.6%	27.5%

Summary of FCPS' FY 2012 Ending Balance

Ending Balance Composition	FY 2012 (\$ in millions)	Definition
Revenue	\$2,371.6	
Set Aside for Beginning Balance	\$52.5	This is funding set aside in a prior year for a future year beginning balance.
VRS Reserve	\$45.0	When state officials set VRS rates lower than actuarially recommended to provide fiscal relief and declared that future year's would require repayment with interest, FCPS opted to establish a reserve to try to mitigate the financial impact of these decisions on future budgets.
Compensation Reserve	\$3.0	Fully expended to balance the FY 2012 budget.
Total Funds Available	\$2,472.1	The total of revenue and funding set aside for future years' beginning balances.
Total Disbursements	\$2,215.6	The total expenditures and transfers out to other funds.
Ending Balance	\$256.5	Prior to actions at the final budget review
Less Actions from the Final Budget Review:		
Flexibility Reserve	\$8.0	The School Board flexibility reserve is normally maintained at \$8.0 million to meet unbudgeted needs. Any unused portion is carried forward to the next fiscal year with School Board approval. For this reason, the flexibility reserve is only reflected in the current year estimate and is not included in the approved budget totals.
Undelivered Orders	\$46.0	An obligation of funding for orders where goods or services have not been received or performed as of June 30.
Automatic Carryover	\$26.4	Unobligated funding from the current year that is moved forward to the next year. This form of carryover is reserved for schools and primarily covers their supply and hourly accounts. It allows schools the flexibility of multi-year planning for a portion of their funding and has been especially helpful during the economic downturn.
Unencumbered Carryover	\$5.2	See "automatic carryover" with the exception that this funding must be requested by the department and approved by the Superintendent. Also referred to as "critical needs" carryover, this is the avenue for schools and departments to carry forward funding to the next fiscal year for non-recurring costs. Examples include the carryover of the balance of special funds (equal opportunity, neediest kids, etc) and to cover the anticipated costs of the implementing the health care reform requirements.
Grant Balances Carryover	\$0.0	The unobligated balance available in a subsequent grant period. This funding must still be used for purposes as stated in the grant.
Centralized Textbook Fund	\$7.7	Beginning in FY 2013, FCPS will centralize textbook purchasing for math. FCPS will fund the purchases centrally, and then reduce per-pupil textbook funding allocated to elementary, middle and high schools annually and return that funding to the central account. At the end of six years, the centralized fund will be completely replenished through these per-pupil reductions.
VRS Reserve	\$60.6	When state officials set VRS rates lower than actuarially recommended to provide fiscal relief and declared that future year's would require repayment with interest, FCPS opted to establish a reserve to try to mitigate the financial impact of these decisions on future budgets.
Teacher Evaluation	\$2.0	Resources were provided to develop and implement the new teacher evaluation system mandated by the Virginia Department of Education. Implementation is required by July 1, 2012.
Clinical Support for Students	\$0.4	Funding was provided to expand clinical support (psychologists and social workers) to schools to assist in special education eligibility assessments where volume is high; to coordinate community resources for high-need schools; and extend contracts for six social workers to manage intervention cases during the summer.
ACE Transfer	\$1.0	The Adult and Community Education Fund ended FY 2012 with a shortfall of \$1.0 million, primarily due to lower than projected tuition revenue. In the FY 2013 Approved Budget, ACE had restructured its course offerings, streamlined its administration, and reduced its staff. To support the FY 2013 projected revenue and expenditure assumptions, a one-time transfer increase of \$1.0 million was provided.
Set Aside for Budgeted Beginning Balance		An amount of funding identified from the current or prior years to assist with balancing the budget of the coming year.
FY 2013	\$57.5	
FY 2014	\$41.6	
Total Available	\$0.0	Remaining available funding after all items above have been accounted for.