

# FY 2012 BUDGET POSITION PAPER

APRIL 2011

## SCHOOLS FUNDING

### Overview

The school divisions in Virginia have no taxing authority and are not fiscally independent; they must rely on funding from Federal, State, and local governments to satisfy their Operating Budget requirements. Deciding the level of local funding for the City's public school system is one of the most significant budgetary policy matters in the development and final adoption of the annual Operating Budget.

### Issue

In Virginia, a significant portion of local schools revenue is State funding that is received through sales tax revenue apportionments, basic aid to support the Standards of Quality (SOQ), and other incentive-based or categorical revenues approved by the General Assembly during its biennial budget considerations. Under State policy, the local government is required to contribute at least a minimum level of funding that is determined by a Required Local Effort (RLE), which computes the locality's ability to pay for education. The RLE is calculated for Standards of Quality funding, based on March average daily membership (ADM) projections. For FY 2011, the minimum Required Local Effort required by the City of Newport News was \$46,911,381. However, the City actually contributed \$109,200,000, which includes \$12.4 million in City-supported School Fund debt service. This additional \$62,288,619 in City funding represents the recognition that the State has not fully funded its SOQ obligations and, that even if it did, this amount of State funding would be insufficient to support the level of educational services desired in this community.

In developing a recommended Operating Budget, the School Superintendent each year must determine the level of funding the School Division can expect to receive from the State, from Federal Impact Aid, and from other miscellaneous revenue. The difference between the revenue sources and the School's base operating needs, plus additional funding for any new initiatives, becomes the foundation for the request for local funding. In reality, the amount of local funding requested is often tempered by the School Division's understanding of the extent to which the City's General Fund resources may change from one fiscal year to the next.

The process of determining the distribution of existing and new revenues between a locality's School Division and the municipal government becomes a fundamental decision in the annual budget development. In some Virginia localities this is accomplished by agreeing in advance on a funding formula, the complexity of which varies among jurisdictions. In most localities, however, this determination must be made each year by the governing body upon considering the recommendation of their City Manager and the amount of the request made by the elected School Board. In arriving at a distribution decision, the City Manager and governing body must evaluate the funding requirements for their municipal operation and weigh these against the financial needs of their School Division.

This was the normal course of action prior to FY 2009. In early September 2008, the national economy changed course in a downward direction. National trends were directly impacting State and local revenues to both the City and Schools, in a constantly fluctuating manner, resulting in quarterly budget reductions necessary to make the ever-declining revenue picture. Rather than discussing the shared revenue growth, the analysis shifted to sharing the impact of lost revenue. The recession has continued into FY 2011, and is showing signs of local recovery. A sustained period of recovery is expected over time.

Generally over the past decade, the greatest increase in State funding has come in the first year of the State's biennium budget. In the second year of a biennium budget, it would have been reasonable to project that the Superintendent's Recommended Budget would contain State revenues at least equal to the first year. The State made strong indications in late 2008 that school districts should anticipate substantial reductions in State support for that upcoming fiscal year. From that point forward, the Schools have sustained a reoccurring cycle of deep State revenue cuts. While a certain percentage can be directly tied to declining enrollments in the City's school system, other reductions stemmed from the State reducing payments to Schools in order to balance their own revenue shortfalls. From the FY 2009 actual revenue to the FY 2011 adopted budget, Schools revenue from the State has declined \$31.9 million, from \$194.8 million to \$162.9 million. During the budget developmental process, the Governor's submitted revised budget for biennial years FY 2011-2012 again included deep additional cuts for FY 2012 of approximately \$3.9 million.

In some past fiscal years, an informal funding formula has been used to estimate the City's Local Share Contribution. When calculating the funding formula, the City generally discounts those General Fund revenue sources restricted for use for specific purposes, and then has a net new revenue amount to fund its various requirements such as debt service, municipal services, and the School Division's request. Because debt service obligations, whether for School or City projects, must be met before revenues can be legally used for any other purpose, the funding for these obligations is

subtracted from the formula before identifying what is available for discretionary School or municipal spending.

Due to declining revenues experienced during the recession, no attempt to apply a formula was made in the current fiscal year or in the proposed budget for FY 2012. Early in the budget development process, the City Manager advised the Schools Superintendent of his intention to recommend an increase in funding to Schools, due to stabilizing local revenue streams. The recommended amount of the increase is \$3 million more than in FY 2011, or \$112,200,000. This is a 2.7% increase. This restores in part the \$4 million reduction made in the FY 2011 Local Support to Schools. (While the FY 2011 reduction was a significant amount, the City did not reduce local support to Schools in FY 2010, and retained level funding between FY 2009 and FY 2010 of slightly over \$113 million. Some neighboring localities have reduced their local contribution for two consecutive fiscal years.) This additional funding from the City to Schools will help to support the additional pension costs associated with employees who participate in the City's retirement system. Other revenue amounts for Newport News Schools include Federal Funds at \$4,091,582 (equal to the current year), and a no increase in other locally generated revenues (tuition, athletic fees, etc.), for an estimate for this source to \$1,945,500.

### **Funding Strategy**

The City's total General Fund revenue for FY 2012 is projected to marginally increase by \$2.76 million or 0.67% over the FY 2011 Adopted Budget. Since FY 2009, General Fund revenues have declined 5%. Consequently, there is essentially no discretionary spending in the General Fund.

When the City Manager's recommended local funding is added to the School Division's projected change in restored State and federal revenues, the Division, after covering its debt service obligations, will have a total increase of \$806,740 in revenues to use to address its spending priorities for FY 2012. This is an overall increase of 0.3% from FY 2011. Below is a chart detailing both revenue and expenditure categories for FY 2012, displayed as the Superintendent's Recommended budget and the School Board Proposed budget. The revenue change in the latter amounts reflects known additional State revenue.

						FY 2012				
						FY 2012	FY 2012	School Board Proposed		
<b>Revenue Summary</b>						Superintendent's	School Board	Change from FY 2011	Percent	
Description	FY 2008 Actuals	FY 2009 Actuals	FY 2010 Actuals	FY 2011 Budget	Recommended	Proposed	Amount	Percent	of Budget	
State Revenue	\$186,423,095	\$194,780,910	\$169,295,642	\$162,982,676	\$159,033,786	\$160,789,416	-\$2,193,260	-1.3%	57.6%	
City Revenue	112,118,000	113,800,000	113,200,000	109,200,000	112,200,000	112,200,000	\$3,000,000	2.7%	40.2%	
Federal Revenue	5,461,622	5,712,064	6,148,526	4,091,582	4,091,582	4,091,582	\$0	0.0%	1.5%	
Other Local Revenue	2,111,807	2,146,792	2,801,245	1,945,500	1,945,500	1,945,500	\$0	0.0%	0.7%	
<b>Revenue Total</b>	<b>\$306,114,524</b>	<b>\$316,439,766</b>	<b>\$291,445,413</b>	<b>\$278,219,758</b>	<b>\$277,270,868</b>	<b>\$279,026,498</b>	<b>\$806,740</b>	<b>0.3%</b>	<b>100.0%</b>	

						FY 2012				
						FY 2012	FY 2012	School Board Proposed		
<b>Expenditure Summary</b>						Superintendent's	School Board	Change from FY 2011	Percent	
Description	FY 2008 Actuals	FY 2009 Actuals	FY 2010 Actuals	FY 2011 Budget	Recommended	Proposed	Amount	Percent	of Budget	
Instructional Services	\$210,548,724	\$212,011,966	\$203,767,042	\$196,390,217	\$196,206,681	\$197,495,696	\$1,105,479	0.6%	70.8%	
Attendance, Admin, Health	12,834,858	13,593,624	11,932,629	11,907,343	11,896,602	12,096,014	\$188,671	1.6%	4.3%	
Transportation	17,844,727	18,609,965	17,053,332	16,584,515	18,418,859	18,412,158	\$1,827,643	11.0%	6.6%	
Operations	29,853,712	31,988,123	30,898,588	28,224,431	27,080,045	27,252,087	-\$972,344	-3.4%	9.8%	
Facilities	4,870,944	6,125,996	889,979	477,500	477,500	477,500	\$0	0.0%	0.2%	
Debt Service, Fund Transfer	14,630,667	14,692,786	13,634,073	13,282,902	13,144,158	13,144,158	-\$138,744	-1.0%	4.7%	
Technology	15,530,892	19,417,306	13,269,770	11,352,850	10,047,023	10,148,885	-\$1,203,965	-10.6%	3.6%	
<b>Expenditure Total</b>	<b>\$306,114,524</b>	<b>\$316,439,766</b>	<b>\$291,445,413</b>	<b>\$278,219,758</b>	<b>\$277,270,868</b>	<b>\$279,026,498</b>	<b>\$806,740</b>	<b>-1.9%</b>	<b>100.0%</b>	

### **Impact**

The City Manager's recommended FY 2012 City Operating Budget provides for \$3 million more than the FY 2011 level for Schools. The total FY 2012 Local Support for Schools will be \$112,200,000. At the time of the final preparation of the City Manager's recommended budget, the State's General Assembly adopted a new biennial budget that at the same time restores and reduces School funding. In the ensuing weeks, the effect of the State's biennial budget was reviewed and it was determined that the State will provide an additional \$1,755,560 in support during FY 2012. Any State funding changes will be incorporated in the final budget slated to be adopted in May 2011.