

# City of Alexandria, Virginia

## MEMORANDUM

DATE: APRIL 30, 2010

TO: MAYOR THE HONORABLE AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #96: FUTURE ALEXANDRIA CITY PUBLIC SCHOOLS VIRGINIA RETIREMENT SYSTEM COSTS

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**Summary:** This memorandum follows up Budget Memorandum #60 dated April 14, 2010, in which it was pointed out that the Alexandria City Public Schools (the Schools) were realizing \$2.0 million in savings in FY 2010 from the waiver of its 4th quarter Virginia Retirement System (VRS) payment and \$5.0 million in FY 2011 savings due to the lower than budgeted VRS rate applied to professional staff. This memorandum proposes language to be added in City Council's motion adopting the FY 2011 Operating Budget that recognizes:

- The possible need for the Schools to use up to \$2.0 million in savings from the waiver of their FY 2010 4<sup>th</sup> quarter VRS payment for the costs of transformation plans to improve performance at T.C. Williams (see below and attachment A); and
- The Schools intention to set-aside approximately \$4.9 million in savings in FY 2011 due to lower VRS rates for future VRS payments and City Council's reliance on that intention in providing these funds as part of the FY 2011 operating transfer to the Schools.

**Background:** Attached to Budget Memorandum #60 previously provided to Council is a memo from Schools staff dated April 12, 2010 which outlines 3 options that would set aside \$7 million of funds aside for future VRS rate increases that were realized by VRS payment waivers and rate changes in FY 2010 and FY 2011:

1. Pay into the VRS trust an amount in excess of the budgeted requirement for FY 2011 and ask VRS to establish an individually tailored, lower rate for the Schools;
2. Establish a VRS reserve on School books and specify the exact conditions under which the funds would be released to fund future VRS rate increases; or
3. Use these funds to pay down the Schools OPEB liability.

Schools staff recommended options 1 or 2.

In acknowledgment of the Schools staff recommendations, City Staff recommended in Budget Memorandum #60 that City Council should add language to the resolution adopting the FY 2011 budget that:

- Recognizes the excess funds available to the Schools,
- Commends the Schools for considering a responsible way to use these funds to minimize future increases in the cost of VRS benefits;
- Endorses the approach recommended by the Schools staff (options 1 or 2); and
- Assumes that the School Board will adopt those options (or another option discussed with representatives of the City Council) prior to adopting their final FY 2011 budget.

On April 28, 2010 School Staff prepared an additional memorandum (Attachment B) for the School Superintendent and School Board on this topic and options for addressing the need the need for funding for a transformation plan at T.C. Williams High School (TCW) and other secondary schools in light of the recent declaration by the Federal Government that TCW was a persistently lowest-achieving school. The April 28<sup>th</sup> memorandum says “Based on our preliminary plans, it appears that spending \$1.0 million during each of FY 2011 and FY 2012, coupled with grant funding [from the Federal government for this purpose], will provide the additional funds needed.”

A second attachment to this memorandum discusses the status of transformation funding in more detail.

The April 28<sup>th</sup> memorandum from Schools Staff continues to make the following statement:

“This would leave the \$4.9 million<sup>1</sup> in FY 2011 funds in the VRS set-aside, assuming the full 2% increase to the City appropriation to the schools, as indicated in City Council budget guidance – School Board joint budget work session in March. ACPS staff understand[s] the concern of City Council and City staff about the possibility of spending the VRS funds on items unrelated to VRS cost increases, and remain committed to setting these funds aside to be used only to cover VRS costs. It continues to be the strong recommendation of staff that the Board specifically set-aside these funds to cover future rate increases as part of the budget motion to adopt the FY 2011 [Schools] budget, as noted in the April 12<sup>th</sup> memo to the School Board.

If funds were needed for emergency purposes before the set-aside is fully expended for VRS cost increases, ACPS staff would look first to realignment of existing budget funds and then to the City for additional support. However, as supplementary requests have not been necessary in the past, ACPS does not anticipate such a need in the future, even if extraordinary enrollment growth were to occur.”

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<sup>1</sup> The \$5.0 million estimate mentioned in the earlier April 12<sup>th</sup> School Board memorandum was revised downward to reflect more recent salary cost estimates for FY 2011 upon which the VRS savings costs are estimated.

**Recommendation:** Given these circumstances, City Staff recommends the following language be included in an addendum to City Council's motion adopting the Fiscal Year 2011 General Fund Operating Budget:

**Motion Expressing Council's Intent and Understanding In Regards to Set-Aside of Part of Schools Operating Transfer for Future Virginia Retirement System Costs**

It is the intent and understanding of the City Council in adopting the FY 2011 General Fund Operating Budget:

1. That the Schools realized \$2.0 million in savings in FY 2010 from the waiver of their 4th quarter Virginia Retirement System (VRS) payment provided by General Assembly action;
2. That the Schools need \$4.9 million less in FY 2011 than requested in the School Board approved budget and provided by the adopted budget due to the lower than budgeted VRS rate.
3. That these artificially low rates of payment being required in FY 2010 and FY 2011 will lead to large future cost increases for the Schools as the VRS rates increase to make up for years of underfunding;
4. That the Schools Staff and School Board are to be commended for considering a responsible way to use these funds to minimize future increases in the Schools budget for the cost of VRS benefits;
5. That it is Council's intent in including \$4.9 million in the operating transfer to the Schools, that those funds are for purposes of minimizing increases in the Schools' budget for the future cost of VRS benefits;
6. That it is the understanding of City Council that the School Board will include in its motion adopting a FY 2011 operating budget language setting aside \$4.9 million in funds for future VRS payments in accord with the April 12<sup>th</sup> and April 28<sup>th</sup> memoranda from Schools Staff suggesting this course of action.
7. That the Schools will face costs in implementing a Federally required transformation plan to address the designation of T.C. Williams as an persistently lowest-achieving school;
8. That the Schools Staff believes that \$2.0 million in the Schools' fund balance available from the FY 2010 VRS 4<sup>th</sup> quarter payment waiver may need to be used in funding the costs of a transformation plan for secondary schools in a plan addressing the designation of T.C. Williams as a persistently lowest-achieving (PLA) school;
9. That to the extent this \$2.0 million is not needed for this transformation plan for secondary schools, such funds shall also be set-aside for future VRS rate increases.
10. That nothing in this addendum shall be construed as imposing a legal obligation on the Schools to spend these funds in any particular manner;

Attachment A: T.C. Willams High School Transformation  
Attachment B: April 28, 2010 Memorandum, "Options for Addressing Secondary School Transformation Needs and Long Range Financial Impact"

### **T.C. Williams High School Transformation**

The Virginia Department of Education (VDOE) was recently required by the United States Department of Education (USED) to submit a revised definition of persistently lowest-achieving (PLA) schools and a subsequent list of schools which meet this new definition. Based on VDOE's revised definition, T.C. Williams was designated a PLA school. With this new designation come increased federal requirements – specifically the need for ACPS to select and implement one of four intervention models – to improve student achievement at T.C. Williams. Discussions on this new designation and next steps have already commenced and additional information can be found on the ACPS website at <http://www.acps.k12.va.us/tcw-transformation/>.

With this new designation and federal requirements, there is potential for ACPS to receive additional federal funds to address student improvement at T.C. Williams. The U.S. Department of Education has made available nationwide nearly \$4 billion in federal funds to help schools in improvement, corrective action, and restructuring to improve student achievement. The funds are made available (via the VDOE) through an ARRA Title I school improvement grant. The priority for this funding is to serve the persistently lowest-achieving schools as designated in Tiers I and II of this category. T.C. Williams is considered a Tier II school which is defined as a secondary school that is eligible for Title I funding but does not receive Title I funds and fell into the bottom five percent of VA Title I eligible schools as measured by eleventh grade English and Mathematics assessments, a longstanding achievement issue.

The amount of federal funds made available to school divisions ranges from \$50,000 - \$350,000 per school. The amounts are scaled to a 500-student high school meaning the maximum that might be available is \$2 million per year. The funds are provided for two fiscal years, but can be spent over three years if the division requests to do so.

At this time the exact amount of federal funds ACPS will receive is unknown, but funds could be made available as early as mid-June 2010. The level of expenditures needed by ACPS to implement the intervention model required by the federal government to improve student achievement is also uncertain at this time.

Date: April 28, 2010

For ACTION \_\_\_\_\_

For INFORMATION  X

Board Agenda: Yes \_\_\_\_\_  
No  X

**FROM:** Margaret Barkley Byess, Deputy Superintendent, Planning and Support Operations *MBB*

**TO:** Morton Sherman, Ed.D. *M Sherman*

**COPY:** The Honorable Yvonne Folkers, Chair, and Members of the Alexandria City School Board  
Executive Staff

**TOPIC:** Options for Addressing Secondary School Transformation Needs and Long-Range Financial Impact

**BACKGROUND:** ACPS and Alexandria City have faced difficult budget deliberations for the past three years. Through an open and collaborative approach, the City Council, School Board, City staff, and ACPS staff have worked to maintain our organizations' abilities to meet their goals and fulfill their missions while being mindful of the impact of the current economic environment on taxpayers.

During this period of time ACPS has met the budget guidance from the City Council, while serving over 1,400 additional students. We started the FY 2009 school year with 700 students more than projected. Since then we have absorbed 700 more students while the City appropriation has remained constant. Our budgeted cost per pupil is declining, the actual cost per student has fallen, and the City appropriation per student has declined.

We greatly appreciate the support for school needs, both for operating and capital improvement funds, that has been forthcoming from the City. We take our responsibility to be prudent managers of public funds very seriously, and have worked diligently over the past three years to ensure that we budget accurately, spend effectively, and leave no stone unturned in identifying ways to improve our operations.

### **Transformation of Secondary Schools**

ACPS is now faced with the need to implement a major transformation of TC Williams High School. Although this is prompted by the recent designation of TCW as a persistently lowest achieving Title I high school, the inequities in results across all TCW students are not new. These long-standing issues for these underserved and underachieving students compel us to act now on their behalf.

In recognition of this, a major restructuring of middle schools was begun this year, and the successful transformation of TCW is dependent on the successful transformation of all secondary schools.

Planning for the transformation is still in its early stages, but several common elements have emerged:

- A case manager approach needs to be developed to support direct, individualized assistance to every secondary student
- Individualized achievement plans in English and math need to be developed for every secondary student
- Improved support for students in planning and preparing for post-secondary options (college and career) must be put into place
- Alternative instructional arrangements must exist to provide the range of learning environments needed for a diverse student population
- The academic growth of each and every student must be measured on a regular basis, and an accurate assessment of students' strengths and weaknesses must drive planning at an individual, class, department, school, and division level.

The key elements to this are more guidance counselors to serve as case managers and to support college and career planning, and more English and math teachers to support development of the individual achievement plans and the individualization of instructional support in these areas.

#### **Federal Funds to Support the Transformation of Secondary Programs**

The transformation will require additional funds for several years. An unknown level of funding is forthcoming from the US Department of Education (via the Commonwealth of Virginia's Department of Education) through an ARRA Title I school improvement grant. The availability of the funding is contingent upon a successful grant application, and the amount will be dependent on both the reform model selected and the program described in the grant application submitted by ACPS.

Preliminary guidance from the Virginia Department of Education is that \$50,000 to \$350,000 per school will be available, for each of two fiscal years. The amount is scaled to a 500-student high school. The funds are available for two fiscal years, but may be spent over three years if the division so requests. Extrapolating from this guidance, the maximum that might be available is \$2.0 million per year for each of three years.

#### **Local Funds to Support the Transformation of Secondary Programs**

Because of adjustments in Virginia Retirement System (VRS) plan rates for FY 2011 and a fourth-quarter holiday for FY 2010, ACPS may realize approximately \$4.9 million in FY 2011 fund balance and \$2.0 million in FY 2010 fund balance. As discussed in the April 12, 2010 memo to the School Board on VRS set-aside options (see Attachment A), ACPS staff strongly support setting aside the bulk of these funds to cover future VRS rate increases.

In recognition of the requirements of a transformation of TCW and the middle schools, ACPS staff are currently discussing with the School Board the possibility of spending the FY 2010 fund balance from the fourth quarter VRS holiday on this effort. Based on our preliminary plans, it appears that spending \$1.0 million during each of FY 2011 and FY 2012, coupled with the grant funding, will provide the additional funds needed.

This would leave the \$4.9 million in FY 2011 funds in the VRS set-aside, assuming the full 2% increase to the City appropriation to schools, as indicated in City Council budget guidance and discussed at the City Council - School Board joint budget work session in March. ACPS staff understand the concern of City Council and City staff about the possibility of spending the VRS funds on items unrelated to VRS cost increases, and remain committed to setting these funds aside to be used only to cover VRS costs. It continues to be the strong recommendation of staff that the Board specifically set-aside these funds to cover future rate increases as part of the budget motion to adopt the FY 2011 budget, as noted in the April 12<sup>th</sup> memo to the School Board.

If funds were needed for emergency purposes before the set-aside is fully expended for VRS cost increases, ACPS staff would look first to realignment of existing budget funds and then to the City for additional support. However, as supplementary requests have not been necessary in the past, ACPS does not anticipate such a need in the future, even if extraordinary enrollment growth were to occur.

### **Long-Range Financial Planning**

ACPS staff have recently completed an updated fiscal forecast model, which will be shared with the Board at the May 6<sup>th</sup> work session. It is clear that several more years of difficult budgets are ahead of us even with the most optimistic revenue scenarios. The long-range fiscal forecast demonstrates what we have previously discussed:

- We face the ARRA "funding cliff" in FY 2012
- We face further VRS rate increases in FY 2012 and beyond
- Enrollment growth continues to drive budget increases through FY 2015 and beyond
- Maintenance of competitive salary levels and provision of step/merit increases will continue to create structural deficits
- The use of the VRS fund balance from FY 2010 adds to the "funding cliff" in FY 2012.

Even with the use of the VRS set-aside to cover the VRS rate increases, significant annual deficits are projected. The budget process over the past several years has focused on deep analysis and realignment; more will be needed in the future, and we may need to consider an "organized abandonment" of some programs and functions to balance budgets. We are prepared to do this, and fully understand our responsibility to be responsible fiscal partners with the City.

Public education is a compact about the future with our students, their families, and the community. We must meet the needs of all students in Alexandria City Public Schools and are prepared to do so.

**CONTACT PERSON:** Margaret Barkley Byess