Budget Forecast

BUDGET FORECAST SUMMARY

	FY 2019 SUPERINTENDENT'S PROPOSED		FY 2020 PROJECTED	FY 2021 PROJECTED	FY 2022 PROJECTED
	FUNDS	FTE	FUNDS	FUNDS	FUNDS
REVENUE					
Prior Year Budget - All Funds	$613,554,404		$636,624,731	$639,235,298	$646,163,972
Increase in County Revenue	$13,426,181		$10,993,168	$12,062,568	$13,081,593
County One-Time Revenue	($4,583,507)		$0	$0	$0
Increase/(Decrease) in Local Revenue	$2,263,460		$750,000	$1,000,000	$750,000
Increase/(Decrease) in State Funds - All funds	$3,852,030		$1,266,017	$844,359	$1,051,716
Increase/(Decrease) in Federal Revenue	$150,677		$200,000	$200,000	$200,000
TOTAL REVENUE	**$628,663,245**		**$649,833,916**	**$653,342,225**	**$661,247,282**
VRS Reserve Used in Prior Year Budget	($2,125,000)		$0	($1,000,000)	($1,000,000)
Debt Service Reserve Used in Prior Year Budget	($1,300,000)		($4,421,379)	($773,687)	($114,934)
Future Budget Years Reserve Used in Prior Year Budget	($4,842,655)		($11,407,762)	($4,706,836)	($2,887,336)
Compensation Reserve Used in Prior Year Budget	($5,550,000)		($5,950,000)	($4,700,000)	$0
Future Budget Years Reserve Used in Current Year Budget	$11,407,762		$4,706,836	$2,887,336	$2,887,336
Compensation Reserve Used in Current Year Budget (see Note 1)	$5,950,000		$4,700,000	$0	$0
VRS Reserve Used in Current Year Budget (see Note 1)	$0		$1,000,000	$1,000,000	$512,239
Debt Service Reserve Used in Current Year Budget (see Note 1)	$4,421,379		$773,687	$114,934	$0
TOTAL FUNDS AVAILABLE	**$636,624,731**		**$639,235,298**	**$646,163,972**	**$660,644,587**
EXPENDITURES					
Prior Year Budget - All Funds	$613,554,404	4,674.45	$636,624,731	$672,132,279	$692,028,111
BASELINE ADJUSTMENTS					
Salaries and Benefits Baseline Adjustments & Efficiencies	($5,378,711)		$0	$2,000,000	$0
Baseline Savings					
Eliminate one-time costs in prior year	($4,852,655)	0.00	($3,153,609)	($2,809,086)	($2,809,086)
Other baseline savings	($485,027)	(2.50)	$0	$0	$0
Contractual Obligations					
Debt Service	$8,842,759		$1,547,375	$2,700,576	$855,133
Other contractual obligations	$1,878,699		$1,935,379	$649,566	$661,132
Additional Funds for Baseline Services					
Baseline services in other funds (CSA, F&NS, Grants, Ext. Day)	$1,545,429	6.99	$650,000	$900,000	$650,000
Other baseline services	$5,295,616	3.50	$2,205,163	$1,930,331	$1,930,502
Additional Costs for New Capacity					
Additional operating costs	$483,200	4.00	$5,428,000	$244,005	$0
Start-up costs	$2,165,000		$2,270,000	($4,435,000)	$0
NET BASELINE ADJUSTMENTS	**$9,494,310**	**11.99**	**$10,882,308**	**$1,180,392**	**$1,287,681**

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BUDGET FORECAST SUMMARY (CONT.)

	FY 2019 SUPERINTENDENT'S PROPOSED		FY 2020 PROJECTED	FY 2021 PROJECTED	FY 2022 PROJECTED
	FUNDS	FTE	FUNDS	FUNDS	FUNDS
NEW INVESTMENTS					
Enrollment Growth					
Changes in enrollment	$4,889,680	37.00	$6,109,100	$5,076,800	$6,690,200
Other enrollment-related needs	$935,000		$1,000,000	$1,000,000	$1,000,000
Compensation					
Step increase	$9,700,000		$10,700,000	$11,700,000	$12,700,000
Additional compensation - below market positions	$2,200,000		$2,200,000	$0	$0
Investments Supporting Growth	$989,150	5.00	($292,750)	$0	$0
Growth Initiatives					
Arlington Tech	$1,940,000	20.57	$1,940,400	$631,350	$849,600
Student and Instructional Support	$2,171,000	14.00	$1,500,000	$0	
Safety and Security Needs	$271,250		($15,000)	$0	
Infrastructure and Support Needs	$496,092	9.00	$307,290	$307,290	$0
TOTAL NEW INVESTMENTS	**$23,592,172**	**85.57**	**$23,449,040**	**$18,715,440**	**$21,239,800**
REDUCTIONS	($10,016,155)	(86.90)	$1,176,200	$0	$0
TOTAL EXPENDITURES	**$636,624,731**	**4,685.11**	**$672,132,279**	**$692,028,111**	**$714,555,592**
Surplus/(Shortfall)	**$0**		**($32,896,981)**	**($45,864,138)**	**($53,911,005)**

Note 1: Compensation Reserve, VRS Reserve, and Debt Service Reserve used in FY 2020 through FY 2022 assumes full depletion of current reserve balances if no additional funding is provided.

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The budget forecasts for FY 2020 through FY 2022 are based on the proposed budget for FY 2019. Given the revenue and expenditure assumptions below, the potential deficits or surpluses are as shown on the previous pages. However, should any of the variables change, the surpluses or shortfalls will change as well and could be higher or lower. These forecasts are intended to show how the budget will change in order to maintain the current instructional, support, and extracurricular programs and services as well as to provide services to the 2,681 additional students projected to enroll in APS in FY 2019 through FY 2022. The forecast also assumes that all new investments, continuing growth initiatives, and reductions as outlined in the "Building the Budget" section are approved. These forecasts are not intended to show the effects of any new programmatic decisions that might be made in any of those years.

The revenue and expenditure assumptions used to build the three-year forecast are listed below.

Revenue Assumptions

- **County Transfer**–The County publishes two separate revenue forecasts: a low growth scenario and a moderate growth scenario. This forecast assumes the moderate growth scenario which projects 2.20% growth in total County local tax revenue in FY 2020, 2.37% growth in FY 2021, and 2.51% growth in FY 2022. The County Transfer amount is based on 46.6%, the share received in FY 2018, of County local tax revenue. Any tax increases in future years for either the County or the Schools would change the Schools' share and would change the projected revenue in the out years.
- **State Revenue**–Assumes growth in State funding in FY 2020 based on the Governor's proposed 2019-2020 biennial budget as presented on December 18, 2017. Also assumes some growth in State funding in FY 2021 and FY 2022 strictly for increased enrollment. Any changes to the Governor's proposed 2019-2020 biennial budget would change the projected revenue in the out years.
- **Local Revenue**–Assumes a slight increase in Local revenue each year based on historical trends and projected increases in expenditures for self-funded programs such as Extended Day and Food and Nutrition Services.
- **Federal Revenue**–Assumes a slight increase in Federal revenue each year based on historical trends, primarily in the Food and Nutrition Services Fund.
- **Carry Forward**–Assumes Carry Forward will remain at the same level as FY 2018.
- **Reserves**–The School Board has created a number of reserves over the past seven years as a way to help offset the increasing costs of capital, VRS, debt service, compensation, health insurance, and other unfunded liabilities in the out years. In addition, the School Board has allocated funds from closeout of the past five fiscal years to create a Future Budget Years reserve to help defray one-time costs in upcoming fiscal year budgets. Reserves are used in the forecast to partially offset any projected increases in debt service in the FY 2019 budget and in the out years until depleted. Reserves are also used to offset one-time costs in the FY 2019 budget and the Minor Construction/ Major Maintenance accounts. Any known one-time costs in the out years related to Enrollment, Additional Capacity, and New Investments are also included. Compensation reserves are used in the FY 2019 budget to offset 50 percent of the step increase cost and market rate adjustment. A step increase is assumed in the out years so compensation reserves are used to offset 50 percent of the cost until the funds are depleted. Because the reserves are one-time revenue sources each year, the subsequent year is decreased by the amount of reserves used in the prior year.

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Expenditure Assumptions

- Salaries and Benefits Baseline Adjustments and Efficiencies includes:
  - Estimated changes in the salary and benefits base from the prior year adopted budget to current and on board
  - Projected changes in fringe benefit rates
    - Using the rates in the Governor's proposed 2019-2020 biennial budget, the VRS retirement rate for professional staff will decrease 0.64 percentage points in FY 2019. For FY 2021 and FY 2022, it is estimated that the rate will increase one percentage point in FY 2020 and remain at that level for FY 2021. The VRS retirement rate for non-professional staff, the group life insurance rate, and the retiree health care credit rate are projected to remain the same as in FY 2019 in the out years
    - Health insurance premiums are projected to increase $1.5 million per year based on historical trends and premium increases of 3% in FY 2020 and beyond
- *Baseline Savings* includes costs removed from the budget because they were one-time costs in the prior year, or because the cost of an item or service has decreased.
- *Contractual Obligations* includes those items for which we are legally bound to pay such as Debt Service and Building Lease Costs, and those items which must be paid in order for schools to run such as Utilities.
- *Additional Funds for Baseline Services* includes increases necessary in order to maintain the same level of service as is currently in place such as increased expenditures for the Food and Nutrition Services fund, the Extended Day program, as well as increased network and infrastructure costs and increased maintenance and repair costs.
- *Additional Costs for New Capacity* include additional operating costs required for either new or enlarged schools such as staffing and utilities as well as any start-up costs needed such as furniture, equipment, technology, library materials, buses, etc.
- *Enrollment Growth includes:*
  - Changes in enrollment which includes additional positions and additional materials and supplies resulting from applying the FY 2018 Adopted planning factors to the projected increase in enrollment
  - Other enrollment-related needs include funds to either purchase additional relocatables or to move currently owned relocatables to a new location along with technology and furniture for the relocatables, if needed, to address capacity.
- *Compensation* in FY 2019 consists of a step increase for eligible employees plus $2.2 million to bring positions identified in the compensation study up to market in the second year of a three-year phase-in. The baseline forecast includes a step increase in FY 2020 and beyond as well as the funding for the third year of the three-year phase-in of bringing positions up to market.
- *Arlington Tech* includes the costs expansion of the program in FY 2019 and the continuing expansion of the program in fiscal years 2020 through 2022. Staffing costs were increased based on projected enrollment in this program being higher than previously stated and additional courses being offered at the program. Any one-time costs are funded with one-time funds and eliminated in the following year.

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- *Student and Instructional Support* includes costs for new initiatives to provide specific, targeted assistance to students and staff in support of the School Board's priority around the whole child. Any known out-years costs are included in fiscal year 2020 and any one-time costs are funded with one-time funds and eliminated in the following year.
- *Safety and Security Needs* includes initiatives to increase the safety of students and staff and the security of school buildings. Any known out-years costs are included in fiscal year 2020 and any one-time costs are funded with one-time funds and eliminated in the following year.
- *Infrastructure and Support Needs* includes funding for additional contracted bus drivers and bus attendants as well as technicians in Information Services. Any known out-years costs are included in fiscal years 2020 through 2021 and any one-time costs are funded with one-time funds and eliminated in the following year.
- *Investments Supporting Growth* includes funding for additional central office assistance to support students and staff in preparation for becoming a 30,000 student school division in 2021. Any one-time costs are funded with one-time funds and eliminated in the following year.
- *Use of One-time Funds* includes those items that will be funded with one-time funds from the Future Budget Years reserve that have not been included elsewhere in the forecast such as replacement buses and technology. One-time funds will also be used to offset the technology and furniture start-up costs for Wilson, Fleet, and Stratford, the relocatables and necessary furnishings for the relocatables as well as and any one-time costs included in New Investments Supporting Growth and Continuing Growth Initiatives.
- *Reductions* were taken in order to develop a revenue neutral budget. These reductions include changes to certain planning factors, reductions in central office staff and budgets, eliminating benefits above law requirements, postponing the addition of psychologists, social workers, and academic support for level 5 English language learners, and using one-time funds for the Minor Construction/Major Maintenance accounts. Additionally, local revenue was increased to reflect the funds to be received from the Apple Device Buyback program.

Long-Range Sustainability

In the FY 2019 Superintendent's Proposed Budget, a total of $21.8 million is used from a number of reserves in order to balance the budget. Reserves are one-time revenue sources and must be eliminated in subsequent years, which increases the shortfall for APS in future years. While this practice works for expenditures that are funded one-time, such as purchasing a vehicle or a software package, this is not sustainable over time for ongoing expenditures. As indicated in the budget forecast, the compensation reserve and debt service reserve will be fully depleted if no additional funding is provided. APS will work to reduce its dependence on reserves to balance the budget in the future.

Long-Term Savings

As the forecast indicates, there is an increasing shortfall in FY 2020 through FY 2022. In order to balance the budget in future years, the following will be reviewed to determine if long-term savings can be realized:

- Energy savings
- Transportation
- Planning factors study
- Personalized learning devices study
- Review of option programs
- Collaboration with the County

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