

An adjourned meeting of the Board of Supervisors of Albemarle County, Virginia, was held on November 14, 2013, at 4:00 p.m., Room 241, County Office Building, McIntire Road, Charlottesville, Virginia. The meeting was adjourned from November 7, 2012.

PRESENT: Mr. Kenneth C. Boyd, Ms. Jane D. Dittmar, Ms. Ann Mallek, Mr. Dennis S. Rooker, Mr. Duane E. Snow and Mr. Rodney S. Thomas.

ABSENT: None.

OFFICERS PRESENT: County Executive, Thomas C. Foley, Assistant County Executive, Doug Walker, Assistant County Executive, Bill Letteri, County Attorney, Larry Davis, Director of the Office of Management and Budget, Lori Allshouse and Senior Deputy Clerk, Travis O. Morris.

Agenda Item No. 1. The meeting was called to order at 4:18 p.m., by the Chair, Ms. Mallek, and the Chair of the School Board, Mr. Koleszar.

Agenda Item No. 2. **Joint Meeting with School Board**

SCHOOL BOARD MEMBERS PRESENT: Mr. Jason Buyaki, Mr. Ned Galloway, Mr. Stephen Koleszar, Ms. Diantha McKeel, Ms. Barbara Massie Mouly, Ms. Pam Moynihan and Mr. Eric Strucko.

STAFF PRESENT: Dr. Pam Moran, Superintendent, Mr. Dean Tistadt, Chief Operating Officer, Mr. Jackson Zimmerman, and Ms. Jennifer Johnston, School Board Clerk.

Item No. 2a. **Work Session:** Five Year Financial Plan.

Dr. Moran addressed the boards, stating that the School Division is in the process of starting its five-year financial plan projections, with that planning process being one of the most important things it does in order to address challenges and build their budget. She said they strive to align their financial planning with strategic goals and Horizon 2020 strategic plan objectives. Dr. Moran then turned the presentation over to Mr. Dean Tistadt, Chief Operating Officer for Albemarle County Schools.

Mr. Tistadt addressed the boards and said the School's five-year projections include current challenges, the fund balance, VRS, compensation, the Capital Improvements Program, local revenues, changing demographics, and disability insurance mandates. He said that, on the watch list, are building capacity to meet student enrollment growth, funding issues from the state, and federal sequestration uncertainties. He stated that future challenges are instructional in nature, such as assessments beyond the SOLs, special development tasks, a balanced assessment model, and continuous improvement in instructional technology, learning and world languages. Mr. Tistadt said he would present systemic revenue assumptions and enrollment and demographic projections, with a brief summary of findings.

Mr. Tistadt reported that, for the first assumption, free and reduced lunch percentages remain flat for the out year projections, although there have been increases in the number of those students – now comprising about 28% of the student body, which is significant. He said the demands to educate those students appropriately are greater than for students who do not come from poverty. He said that, at the last joint meeting with the Board, staff took the direction to build 2% into assumptions for the following year, using the same inflation, compensation and benefits costs as local government has done. Mr. Tistadt said the transfer numbers from the County seem to indicate that the transfer will increase the following year by about 3.3%, with a 1% increase in state revenues projected for that year and 2% the year after – assuming the composite index remains the same and assuming an increase in SOQs based on benchmarking. He stated that there's an assumption that federal revenues will remain the same and other transfers will decrease slightly as the fund balances are drawn down in the self-sustaining funds.

Mr. Tistadt said that, in looking at the summary of revenues over the next five years, the total revenue is \$155 million in FY13-14 and \$156 million in FY14-15, with the "other" income being only the fund balance, which historically assumes about \$2.5 million fund balance carryover year to year– and they are not certain they will achieve that much this year. He reported that the School Division started this year with a little over \$3 million in the fund balance and had budgeted \$2.6 million, with \$171,000 that the Board re-appropriated to finish the Design 2015 work, leaving a projected fund balance of about \$200,000. Mr. Tistadt said that normally they would add to that balance through the use of salary lapse but this year, as part of budget decisions, the School Board increased the assumption of salary lapse savings from about \$700,000 to about \$1.7 million and that is cause for concern as that may not be achieved.

Mr. Tistadt stated that enrollment growth has continued in all but one year of the past several years, and increases are projected for the out years. He said that, on a cost per pupil basis, they have actually decreased the cost per student from the 08-09 year and, in the 12-13 year, they are still below that 08-09 year, and well below with the VRS mandate removed. Mr. Tistadt stated that this demonstrates a great deal of responsibility on the part of the School Board to hold down costs on a per-pupil basis despite all of the external factors that are forcing cost increases. He said the free and reduced lunch program has been a growing issue, as educating those students increases the pressure on the school system.

Mr. Tistadt said that their expenditure assumptions and prior years' reductions would be continued throughout the five-year model, and those assumptions are consistent with those used by local government. He said there are some growth-related operational cost increases and no funding in the model for any implementation of the strategic plan. Mr. Tistadt presented information on adjustments

made since 2010-11, stating that some of those are significant service reductions and some are operational efficiencies such as those in the transportation area, but there is also a lot of “pain and suffering” in the list that will be continued in the projected model.

Mr. Tistadt stated that, to further define increases, staff has divided them into categories, the first of which is mandates, totaling \$2.6 million for VRS, group life, and disability insurance. He said he has heard recently that there may be some good news regarding VRS but, until the legislature acts, there is no certainty around what the VRS rates will be. Mr. Tistadt stated that the joint boards directed staff to build their budgets around a 2% cost of living adjustment for employees, with classified and teacher salary increases, and health insurance increased assumptions. He said they also have reflected “avoidance of service-level reductions,” which means that not doing something will impact the quality of service – such as not compensating for enrollment growth or not picking up a grant-funded position. He said strategic planning initiatives are the third and final category, and there is nothing built into the model at this point to fund those over the entire five year-period.

Mr. Tistadt presented the assumptions for the VRS rates, stating that the rate may not go up next year as much as the model shows, but the reality from the actuarial study shows that the numbers in the out years are what will be needed to fully fund VRS. He said there are assumed changes in group life and long-term and short-term disability, but there has been no decision made yet about how to implement the long term disability insurance. He stated that the model assumes 8% increases on average for health insurance and a decrease in dental insurance. Mr. Tistadt presented information on the additional teachers that would be required to fund enrollment growth over the next five years, with a percentage for operational cost increases also shown.

Mr. Rooker asked about the rationale for the big enrollment growth increase shown in 2016. Mr. Tistadt said they were anticipating a bubble during that year.

Dr. Moran noted that those were projections.

Mr. Zimmerman said the bubble is hitting county schools with large free and reduced lunch numbers also, and said that this was using the current formula but the increase would be similar.

Mr. Koleszar explained that they have a staffing formula for free and reduced lunch students at a higher level, which increases the number of FTEs needed. In the current budget year, he said, they funded six fewer positions than the free and reduced formula required with the thought that the formula would need to be revised at some point.

Mr. Snow asked what the bubble was based upon. Mr. Zimmerman said it is based on birth rate data along with historical trends, stating that they are currently graduating a relatively small senior class.

Ms. McKeel said the projections system-wide are usually pretty tight, but what they don't know is determining exactly where those students will end up living and going to schools.

Ms. Mallek asked if there was some family reporting on younger siblings of children who are currently in the system now. Mr. Zimmerman said there used to be reporting for that, but the state has gone to a statistical analysis format rather than a triennial census.

Mr. Tistadt said they now can get birth data by school attendance area, but then struggle with how many of those students will actually be there when they turn school-age.

Mr. Tistadt stated that, with no new initiatives, the schools are currently showing an approximate \$6.5 million deficit in the next fiscal year, and deficits in all of the succeeding out years.

Mr. Tistadt summarized by stating that the substantial mandate expenses will exceed projected revenue increases, they have depleted their fund balance with actions taken over the past several years, and there is no funding included in the current model for strategic initiatives.

Dr. Moran said staff's hope is that the local composite index will either stay neutral or go in the right direction, and benchmarking could also provide some funding. She stated that the governor's budget will be received in December but the last time there was a change in governors there was a different budget in January – so there are a lot of variables still unknown.

Mr. Boyd stated that, in the past, he has had concerns about using one-time monies to fund teaching positions, and noted that, in their presentation, there were positions going away that would increase their operational costs. He asked if that involved stimulus money, grant money, or a combination of both.

Mr. Zimmerman said the transfers are made up of two components – one is the use of fund balance, which is not available as has been in the past; and a conscious choice to bring fund balances from self-sustaining funds into the operating budget to assist with budgetary issues.

Dr. Moran added that when they receive stimulus money, most of it is invested in things other than current expenses, but they did subsidize in the area of technology with some of that money and made cuts in other areas. She said the reason their budget has been relatively flat is that it has been more about redirecting of funds rather than adding funds to pick up positions. She said the Safe Schools grant would soon be coming to an end, and there are some specific practices which have made a significant difference, especially with students who have high at-risk issues. Dr. Moran stated that they want to look

at whether there are measures which should be continued because they will avoid costs in the long-term either to the schools or community interventions.

Ms. McKeel clarified that the School Division used some stimulus funds to hire short-term people, primarily in Information Technology, and they never came back to the Board to request that those positions be funded.

Mr. Rooker stated that, as a practical matter, when grant monies are available, local government and schools apply for the money – and sometimes there may be strings attached – but, in times when revenues are not good, you're going to use that money in the best way you can. He said the County has done the same thing with fire and rescue, paying for nine firefighters with a two-year federal grant.

Mr. Boyd said that they programmed that into their five-year plan though.

Dr. Moran said that the schools have done it the same way.

Mr. Rooker explained that the County is trying to fund several of the fire positions now, with the balance made up of volunteers and, if they don't have the money to pay for them, they may have to do something else – such as fund them through additional grants.

Mr. Boyd said he's been on the Board for 10 years and understands how this works, stating that he was told three years ago that the schools were going to hire additional teachers with the stimulus money, and that raised some concern on his part.

Ms. Mallek stated that 17 teachers were brought back on to help address the increase in enrollment.

Mr. Rooker said his point was the County does the same thing.

Ms. Mallek asked if the reduction in cost per student referred mostly to the adjustments as presented, such as the transportation route changes. Mr. Koleszar said the core of their budget is the one page of staffing formulas and, except for the reductions in the current year for the number of teachers for free and reduced staffing, they haven't cut the staffing formula in the last two years so, in aggregate, the class sizes should be the same.

Ms. Dittmar asked what has been driving the increase in free and reduced lunch students. Mr. Koleszar said he assumed it was recession-related, but the fact that this continues to go up may indicate some general demographic changes in the County.

Mr. Rooker agreed, stating that it is more visible if you go into the school system. He said there has been more low cost, government-subsidized housing built in the community over the last six or seven years.

Mr. Koleszar said that you also see more doubling up, adding that Southwood is adding about 350 students this year, which was just 300 a few years ago.

Mr. Boyd asked if the formula for free and reduced lunch had changed. Mr. Koleszar said that the formula had not.

Ms. Mallek mentioned that, a few years ago, Dr. Moran had mentioned grandchildren moving in with grandparents to come here and go to school.

Mr. Strucko said that, for such dramatic changes in free and reduced lunch, that means that current students who are not eligible for free and reduced lunch suddenly become eligible – as not all of them are kindergartners entering the schools or private school children transferring.

Mr. Buyaki said the free and reduced lunch guidelines are pretty generous from the federal government so, even a family of modest means can apply and be accepted into the program.

Dr. Moran said some people believe that free and reduced lunch coincides with those who are unemployed, but sometimes the number of people in a household will make a family qualify.

Ms. Mallek stated that often it is the "working poor" who are benefiting from these programs.

Mr. Thomas said that it's a great program and it helps students be ready to go for the school day.

Mr. Rooker said the percentages are higher at the elementary level, which indicates that more young people are coming into the system who qualify than existed in the system before.

Dr. Moran said students in high school are less likely to want to get free and reduced lunch, so that may be affecting the numbers.

Mr. Strucko said that, from 2012 to 2013, 400 students were added to the free and reduced lunch rolls, taking the total from 2,900 students to 3,300 – and, this year, that number climbed to 3,500.

Ms. Moynihan asked about the fluctuations in the number predictions in the five-year plan, noting that it was projected to decline in FY19 but there was an increase in FY16. She asked if the bubble was

just that one year. Mr. Zimmerman said it's mainly that they're graduating a small high school class that year, while bringing on a larger kindergarten class.

Mr. Tistadt noted that it's not that the numbers are decreasing, it's just that the increase isn't as large.

Mr. Rooker asked if they had looked at a strategy for bridging the potential gap between revenues and expenses, assuming that the revenue projections are accurate. Mr. Tistadt said they are working on that going forward, and are paying close attention to that.

Mr. Koleszar mentioned that their report on free and reduced lunch totals shows 124,668 free meals and 21,672 reduced meals from August-October.

Mr. Strucko noted that there was a big jump in the years that have actual data, from 2012 to 2013, and he surmised that additions to families might make children eligible as household sizes increase.

Mr. Koleszar said he had been expecting it to level off, however, the numbers went up another 2%.

Ms. Dittmar asked about the funding reduction for CATEC. Mr. Koleszar explained that CATEC had trimmed their budget slightly, and was using some fund balance in the current year.

Ms. McKeel said there are vocational classes and programs within the schools, and CATEC is listed separately.

Mr. Snow asked for the actual percentage of enrollment increases over the out years. Mr. Strucko said that it was about 1.5% on average.

Ms. Mallek asked if there are any possible changes in VRS being discussed, as it might help significantly with the shortfall this next year. Mr. Tistadt said they had initially heard there would be a 20% rate increase, but recent information indicates that may be changing – and he didn't know if that was a result of better news about VRS investments.

Mr. Foley said the VRS Board is meeting today, and the County has calls into them to see where things stand, because some of the assumptions they've used in the past may be reconsidered, given the economy and other factors. He stated that the article that's come out is particularly related to local government, but they make reference to school rates perhaps changing too.

Ms. Mallek said the big difference will be whether state government decides to cover their share.

Mr. Rooker asked how much of the \$2.76 million listed as "mandates" in the school budget was attributable to VRS. Mr. Tistadt said almost all of it.

Mr. Rooker noted that, if it were cut in half, it would be about \$1.3 million.

Mr. Koleszar said one thing he's learned over the years is that, even when the schools send the Board a funding request, they don't know what the revenue numbers are going to be. He stated that the numbers are even vaguer now, at three months out and, until the legislature acts, they don't know what state revenue numbers will be. Mr. Koleszar said that a lot of this reduction per pupil is a reflection of statewide reduction per pupil.

Mr. Boyd mentioned that, at the recent VACo conference he and Ms. Mallek attended, all the legislators were talking about school restructuring as a high priority, including some reductions in costs associated with SOLs, etc.

Ms. Mallek asked if the school system had seen any reduction in costs from the recent SOL changes. Mr. Koleszar said that they've talked about those changes, but those haven't happened yet.

Dr. Moran stated that, over the recent time period of economic challenges, the shift from the state to localities for the cost of educational costs has been relatively significant.

Mr. Zimmerman said the cost per pupil reimbursement from the state is now in the low 30 percent range, and the state proportion has actually been fairly consistent over the last 20 years.

Mr. Rooker asked about the state composite index recalculation mentioned for this year. Mr. Koleszar said that they are recalculating the index for the FY14-15, and stated that they had a "hold harmless" year about three or four years ago.

Mr. Rooker asked Dr. Moran if there was a chance the news from the state could go in the other direction. Dr. Moran said that they hoped to have that information by December, but the piece that makes it complicated is that Albemarle is a part of what goes on around the rest of the state – so what happens in Northern Virginia will impact what happens here. She said the state looks at "ability to pay" with composite index, so the revenue-sharing monies are factored into that as if the County gets it, as is the case with property that may be in land use, all factors which make it look as though the County has a greater ability to pay than it actually does.

Mr. Rooker said that, for numerous years, the County has tried to address the land use taxation issue at the state level.

Mr. Strucko noted that both the composite index and land use programs are state initiatives and, if you select one, you sacrifice something else.

Ms. Mallek said that Augusta County and other localities in the Shenandoah Valley are going to make a formal request of JLARC to include the land use consideration when they look at the formula study so, if it comes out of JLARC as a recommendation to use real dollars instead of hypothetical dollars, it might go through. She said she is hopeful that the backing of some of the bigger agricultural counties will make a stronger case.

Ms. Dittmar asked if Albemarle County could be part of that effort. Ms. Mallek said that they can certainly put it in the legislative agenda and it is currently in the narrative.

Mr. Rooker said one of the problems with the composite index is there's limited amount of money going to schools around the state, and the index determines how that's parceled out to each locality so, if the communities with land use end up getting more money, it results in less money for cities without land use. He stated that it doesn't expand the pie, it just changes the allocation of the pieces.

Mr. Boyd said counties in Northern Virginia feel they are getting shafted on the composite index anyway, because they are putting in a lot more money than what they're getting back – and that's where the power is at the General Assembly.

Ms. McKeel asked if they felt it would be beneficial to combine some items from the school and local government agendas so that they make a bigger impression with legislators. Mr. Buyaki agreed and said there is strength in numbers.

Mr. Rooker said there's no reason not to do that.

Mr. Snow said that they have made joint trips to Richmond over the last two years.

Ms. Mallek said it helps their representatives in Richmond to have the agenda to talk from.

Mr. Rooker said that getting something like the composite index and land use items changed is monumental, but it doesn't mean they shouldn't keep pushing.

Mr. Koleszar said the percentage of revenue from the state for schools in 2008-09 was 30.79% of their budget and, in 2013-14, it's 27.94%.

Mr. Strucko asked if the dollar amount had changed. Mr. Koleszar said the dollar amount had gone up, but the percentage of the total went down. He checked his data and determined that the actual dollars for 2009 was \$45.777 million, and the current year adopted amount is \$43.389 million – so the absolute dollars are down, even though there are more students.

Ms. Mallek said they've probably picked up 900-1,000 students in that time.

Mr. Koleszar said it was about 700 students.

Mr. Rooker said that the land use and payment to the City are close to the same every year but, when combined, it totals well over \$30 million, which is a significant portion of the budget.

Agenda Item No. 3. Matters Not Listed on Agenda.

Ms. Mallek invited School Board members to attend her White Hall town hall meeting the following Saturday at 10:00 a.m., or the Crozet town hall meeting the following Tuesday at 7:30 p.m. in the new library.

Agenda Item No. 4. Adjourn to December 3, 2013, 12:00 noon, Legislative Luncheon.

At this 5:09 p.m. **motion** was offered by Ms. Mallek, **seconded** by Mr. Rooker, to adjourn to December 3, 2013, 12:00 noon, Room 241, for the Board's legislative luncheon with State Legislators. Roll was called and the motion carried by the following recorded vote:

AYES: Mr. Thomas, Mr. Boyd, Ms. Dittmar, Ms. Mallek, Mr. Rooker and Mr. Snow.

NAYS: None.

Chairman

Approved by Board

Date: 02/05/2014

Initials: EWJ
