




LOUDOUN COUNTY PUBLIC SCHOOLS

BUSINESS & FINANCE - ASSISTANT SUPERINTENDENT'S OFFICE

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TO: Dr. Edgar Hatrick, Superintendent

FROM: Leigh Burden, Assistant Superintendent, Business & Financial Services 

SUBJECT: FY 15 Fiscal Challenges

DATE: November 12, 2013

Although the FY 15 budget development process has barely started, LCPS is facing many challenges associated with the preliminary funding projections calculated by County staff at the direction of the Board of Supervisors.

Based on preliminary projections either scenario considered by the Board of Supervisors will result in fiscal challenges not previously seen by LCPS.

In the most favorable preliminary scenario (an equalized tax rate) plus estimated additional state revenue and a reduced carryover assumption, LCPS would see \$6.6 million in additional revenue against a \$75.8 million expenditure increase. **This results in a gap of \$69.2 million.**

In the other preliminary scenario (an equalized tax rate reduced by 2 cents) plus estimated additional state revenue and a reduced carryover assumption, LCPS would see (\$4.6) million less than current funding against a \$75.8 million expenditure increase. **This results in a gap of \$80.4 million.**

Details about the revenue and expenditure projections follow.

Revenue

Local Funding

The preliminary funding projections show that if an equalized tax rate is used, LCPS would receive about \$3 million more in local funding over the current year; a 2 cent tax reduction from the equalized rate is also being considered, resulting in \$8.2 million less in local funding compared to the current year.

Revenue (continued)

State Funding

State funding is largely unknown at this time due to the recalculation of the Local Composite Index (LCI) and late December introduction of the Governor's Proposed Budget. The LCI identifies the State and local shares of funding for K-12 education. If the LCI goes up LCPS will receive less funding from the State; if the LCI goes down we will receive more funding from the State. A projected LCI cannot be calculated accurately by LCPS due to the index's reliance on statewide data.

We will however, most likely get additional funding from the State to address new enrollment. Using the current formula (without factoring in an LCI change) could result in as much as \$8.6 million.

Carryover Funding

Our total budget compared to actual has gotten tighter every year over the past few years. Although the quarterly projections have not yet been completed, we expect the difference between budget and actual to continue to decrease, resulting in less carryover for FY15. We barely reached our carryover assumption of \$10 million from FY13 to FY14, and therefore feel it is prudent to budget a lower carryover amount for FY15. For FY15, we plan to budget \$5 million in carryover funding resulting in an additional \$5 million deficit in revenue.

Potential revenue increases/decreases for FY15 are summarized below.

Revenue Estimates	Equalized Tax Rate	Equalized Tax Rate less 2 cents
Local Funding	\$3.0 million	-\$8.2 million
State Funding	\$8.6 million	\$8.6 million
Carryover Funding	-\$5.0 million	-\$5.0 million
Total	\$6.6 million	-\$4.6 million

Expenditures

The revenue currently being considered is not enough to support known expenditure increases. Details of expenditure estimates follow.

- Enrollment projections for FY15 show an increase of 2,375 students for next year or 3.4%. At the current cost per pupil (CPP) \$11,638, adjusted to account for economies of scale, LCPS will need \$20.7 million in additional funds, just to maintain current service levels. This does not include compensation increases—only the cost of enrollment growth.

Expenditures (continued)

- The Commonwealth's Standards of Quality (SOQ) requires a variety of support positions based on the opening of new locations. SOQ support positions include principals, guidance counselors, secretaries, librarians, and assistant principals. Custodians are an example of another position type allocated per building. There are also the non-salary costs of utilities and insurance. For FY15, we are slated to open Cardinal Ridge Elementary, Trailside Middle School and Rock Ridge High School at a total additional cost of \$6.7 million.
- Teachers and other staff have not had a merit/step increase in five years. Additionally, a "sag" in the middle and later years of the salary schedule—where Fairfax pays up to \$6,000 more for the same level of experience—means that we have difficulty competing in recruitment of new teachers, and we attract very few experienced teachers from Fairfax to LCPS. This is true of Prince William as well, although the gap between the LCPS salary schedule and the PWCS salary schedule is much smaller. Further, the recently released FY14 WABE Guide compares school divisions' salaries at varying levels and one of the data points compares experienced teachers at Master's Degree Step 9. LCPS falls last in this comparison, paying less at Master's Step 9 than any of the other 10 school divisions in the metropolitan area.

The same situation exists with the administrative salary schedule. We sometimes have experienced principals and assistant principals from surrounding divisions apply for jobs within LCPS, but once they discover where they fall on our schedule, they decline our offers. Last year's salary study by the Evergreen Group revealed the sag, and that study projected a cost of \$54 million to address the disparity. A more modest revamping of the salary schedules to address the issue is expected to cost \$29.9 million.

- Virginia Retirement System (VRS) rates, governed by statute, were released last week, and calculate to a non-negotiable increase of \$11 million.
- Healthcare costs and other employee benefit programs also are expected to increase 6.5% or a total of \$8.1 million.

The projected expenditure increase totals \$75.8 million and is summarized in the table below.

Expenditure Increases	Amount
New Enrollment	\$20.1 million
New Schools	\$6.7 million
Teacher/Employee Compensation	\$29.9 million
Virginia Retirement System	\$11.0 million
Healthcare	\$8.1 million
Total	\$75.8 million

Conclusion

Again, either scenario considered by the Board of Supervisors will result in fiscal challenges not previously seen by LCPS. A summary of the projected revenue and expenditures are provided below.

Summary	Equalized Tax Rate	Equalized Tax Rate less 2 cents
Revenue Increase/Decrease	\$6.6 million	-\$4.6 million
Expenditure Increase	\$75.8 million	\$75.8 million
GAP	\$69.2 million	\$80.4 million

LCPS Efficiency

It is important to note that LCPS has done considerable belt-tightening over the past few years, so that we are now one of the most efficient schools divisions in the metropolitan area despite our continued rapid enrollment growth.

- The cost per pupil (CPP) at \$11,638 is next to lowest when compared to our Virginia neighbors. (Alexandria, Arlington, Fairfax, Falls Church, Manassas and Prince William)
- The LCPS percentage of school-based employees is the highest at 93.1% compared to those same Virginia school divisions.
- Over the past five years, the LCPS enrollment has increased by 13,850 students or almost 25%.
- Over the past 5 years, the School Operating budget has increased only 11.6%.

Please contact me if you have any questions.