BUDGET MEMORANDUM

DATE: July 24, 2012

TO: Al Williams, Ed. D., Board Chairman
Judy Conte, Board Vice-Chairman
Stan Schmidt, Board Member
Candace Lankford, Board Member
Diane Smith, Board Member
Margaret A. Smith, D. Ed., Superintendent

FROM: Robert Moll, Ed. D.
Deputy Superintendent
Financial and Business Services

SUBJECT: FY13 Tentative Budget Summary

The tentative budget for FY13 of $763.9 million (compared to $805.3 million in FY12) represents a 5% overall decrease. The major categories of general operating, capital projects and special revenue (federal) all have budget reductions in spite of a 2.85% increase in the Florida Education Finance Program (FEFP) revenue. Despite the base student allocation (BSA) increase to $3,583 from $3,479, the amount barely reached the 2002-03 FEFP funding level. The application of the District Cost Differential (DCD) continues to have a negative impact on Volusia County's FEFP revenue with the reduction of $7.85 million as of the second calculation.

In addressing cumulative FEFP budget reductions of $80 million as well as rising costs since FY08, schools and central office departments were again engaged in austere planning and budget reductions. In order to accomplish a balanced budget, over 354 FTE personnel reductions were put into effect for FY13 as part of the district's mitigating interventions. The unassigned fund balance is currently projected to be 5.86% in accordance with the desired goal in school board policy 722. The capital budget declined by $29.3 million due to the final completion of sales tax projects as well as the loss of Public Education Capital Outlay (PECO) funds and declining revenue due to lower Local Capital Improvement Funds (LCIF) ad valorem revenue. Special Revenue (e.g. Title I, IDEA) also decreased by $500 thousand. In addition, it has not been determined yet for FY13 whether Federal Funds will be subject to sequestration due to the Budget Control Act of 2011 (Public Law 112-25).

Available reserves and cost savings measures were utilized to balance the budget while attempting to address district needs. As we enter the third year of class size amendment requirements by individual classes and sections, the district will face even greater challenges in achieving full district compliance with the loss of 247 teaching positions. Now entering year three (of a four year grant), the Race To The Top (RTTT) federal grant will have a remaining $7 million budget. This important initiative will focus on a variety of activities and deliverables that will comply with the program assurances identified in the project.

At this time, the litigation associated with the employee contribution to the Florida Retirement System (FRS) has not been resolved in the Florida Supreme Court. Pursuant to the outcome, there could still be a financial impact on the FY13 budget relative to the state's response. Student enrollment declines have steadied throughout the state and in Volusia County. In some districts, enrollments have increased. If enrollments exceed the state's initial forecasts, the districts could be facing a proration in the state FEFP budget which could financially impact Volusia County in the third calculation in FY13. Finally, there is also pending litigation and hearings regarding a charter school applicant and current charters respectively that may impact FY13 appropriations based on potential outcomes. The .25 voter approved critical needs ad valorem (tax) millage in the amount of $6 million to $8 million (depending on tax rolls) will expire on June 30, 2013. Consequently, the district will be faced with resolving its financial position as budget development for FY14 takes place in the final quarter of FY13. During the preparation of the FY14 budget, the district will again be faced with daunting issues such as preservation of academic programs, athletics and extra-curriculars, rising fuel, health care, pension costs and class size compliance. The financial impact of teacher pay for performance requirements in Senate Bill 736 is yet to be determined by state guidelines.

Consequently, it would be fiscally prudent in the current environment to be mindful of the importance of maintaining adequate reserves. The Office of Economic and Demographic Research (EDR), the primary economic resource for the Florida legislature, in its July 2012 report, has forecast that it will be a difficult year for state revenues in FY14 and that the Florida economy will require more years to recover from the Great Recession.

RM/dv