

Budget Message 2013-2014

Reductions in appropriations continue to shape school budgetary planning. The Orange County School system operates on revenues received from federal, state, and local sources. The 2013-14 operating budget will continue to be squeezed by shrinking federal allotments and the projected increase in the state discretionary reversion. North Carolina's per pupil funding remains among the lowest in the nation and significant increases in state appropriations are not anticipated. Fortunately, the Orange County Commissioners have continued to provide the schools much needed operational revenue to help offset state and federal funding cuts and to support cost increases associated with continued enrollment growth.

There are a number of factors that will have an impact on the 2013-2014 funding available for Orange County Schools' operations. These factors include enrollment growth, charter school payments, federal sequestration, smaller fund balance reserves, state funding, rising employee benefit costs, recurring costs, and local county appropriations. All of these variables must be considered in the development of next year's operating budget.

Student Enrollment Growth

Our school system receives appropriations based on the number of children we serve. Growth in student enrollment continues this year and the Department of Public Instruction is projecting an increase of 81 students for a total enrollment of 7,501. Based on the formulas used by Orange County Government and a per-pupil appropriation of \$3,167, the county appropriation will increase by \$256,527 for a total of \$24,278,222.

Charter School Appropriations

For the current fiscal year, the OCS budget includes \$970,737 to pay for 309 students attending different charter schools. Next year's charter appropriation is projected to increase by \$7,866. This amount could change significantly if legislation permitting the establishment of Virtual Charter Schools is enacted.

Federal Sequestration

Cuts to federal agencies, including the Department of Education, will reduce funding appropriations to OCS by \$170,314 or 5.3% of the federal appropriations to the district. Staff recommends absorbing these cuts through reductions in materials, supplies, training, and the use of IDEA carryover funding.

Fund Balance Reserves

There will be less reserve funding available for use in the 2013-2014 budget. For the past five years, the Board of Education has successfully cut costs and improved operational efficiencies which have resulted in increased fund reserves. Last year, due to large federal budget cuts, the

Board of Education appropriated \$2.85 million of its reserves for district operations. This appropriation helped offset the loss of federal funding and reduced the negative impact of the state discretionary reduction. As a result, the Board of Education was able to avoid further staffing cuts, maintain class sizes, and prevent program elimination. Projected increases to fund balance are declining and the audited fund balance reserve on June 30, 2012 was \$4,207,417. The 2013-2014 budget includes a recommendation to appropriate \$1.2 million of fund balance to pay for recurring costs and several expansion items.

State Funding Appropriations

The Department of Public Instruction has issued financial planning allotments to school systems across the state. This year's planning allotment includes 3.5 additional teaching positions, an instructional support position, and \$195,195 more in instructional supplies. Of note is the increased appropriation in textbook funding of \$491,317, which is an increase of \$385,806 over last year's funding. Overall state funding is projected to increase by \$1,156,868. Unfortunately, next year's projected state reversion (discretionary reduction) is \$1.87 million. There is discussion in the legislature of changing the way funds are allotted to schools by eliminating categorical funding and replacing it with block grants. This formula for funding schools could result in fewer dollars from state sources.

For the 2013-2014 budget year there will be additional operating expenses associated with higher employee benefit costs, recurring personnel and program support costs, and several expansion requests.

Rising Benefit and Utility Costs

Employee benefit costs are projected to go up and these mandated expenses will have an effect on the school system's finances. The projected 5% increase in health insurance (\$260 per employee) will require an additional \$60,000 from the local appropriation. Additionally, mandated increases in the retirement contribution rates will require an additional \$46,000 appropriation from local funds. Total projected benefit increases are \$106,000. A 5% increase in utility rates will add \$79,000 to the budget.

Recurring Costs

Last year's Board of Education appropriation of fund balance included several categories of recurring costs. These recurring costs include providing needed positions and the continuation of important Board of Education initiatives. The superintendent's 2013-2014 budget recommendations include continued funding for these programs and personnel-related costs. Total projected recurring costs amount to \$686,643.

Expansion Requests

Next year's budget recommendations include several expansion requests. The superintendent recommends establishing a school safety contingency fund of \$220,000 for the purpose of fulfilling future safety-related recommendations. The Board of Education has already budgeted for a comprehensive safety study and physical improvements, and their Safer Schools Committee may identify additional capital and/or human resource-related security enhancements. Specific personnel needs include two additional teaching positions, three technicians to support the elementary digital conversion, and a part-time district-level athletic director. The projected cost of these additional positions is \$285,000 for a total of \$505,000 in expansion requests

Summary

In order to maintain our current programs and personnel it is recommended that the Board of Education request the same per-pupil appropriation as the county provided last year. Due to enrollment increases, this will provide an additional \$256,527 for a total county appropriation of \$24,278,222 for fiscal year 2013-2014. Additionally, it is recommended that the Board of Education appropriate \$1,191,643 of its fund balance reserves to balance the budget, keep existing programs intact, and fund \$505,000 in expansion requests.

Over the past five years, the Board of Education has placed emphasis on cost containment, lowering administrative costs, and reorganizing for overall operational efficiency. These efforts have prevented teacher job loss, maintained class sizes, allowed innovative programs to thrive, and otherwise mitigate many of the negative effects of huge budget cuts. Orange County Schools continues to provide an excellent return on taxpayer investment. This is demonstrated through higher levels of achievement, innovative instructional programming, and well prepared graduates. This recommended budget keeps classroom needs at the forefront, supports the Board of Education's goals and initiatives, and focuses on providing the best possible educational experience for the youth in our county.