

MEMORANDUM

To: Joint School Services Committee
From: Subcommittee on Finance
RE: Findings & Recommendations

I. Background

The Finance Subcommittee has met approximately 6 times since March - concerning itself primarily with cost savings/efficiencies gained in consolidation, the yearly budget process, an Early Retirement Incentive Package (ERIP), and how future capital expenses would be shared in a consolidated division.

Historical and existing models for the above topics have been explored. The mergers of Allegheny County and Clifton Forge and the contractual agreement between James City County and Williamsburg City being the most prominent examples. The fiscal analysis commissioned by the JSSC and authored by Mr. James Regimbal and Mr. Richard Salmon served as the foundation for much of our discussions.

II. Findings

A. "Evidence of the cost savings to be realized by such consolidation" (Va. Code § 22.1-25(D))

The subcommittee's main task (and only task *required* to move forward with a proposal) was to explore the potential cost savings that could be gained from consolidation of Covington City Public Schools and Allegheny County Public Schools. The fiscal analysis the JSSC received in December 2019 served as the backbone of these discussions. Mr. Regimbal, the principal author of the document, was able to join the subcommittee in a July 1 meeting to more deeply examine the analysis and answer subcommittee questions. While the subcommittee agreed that some numbers used in the December analysis had changed, it was unanimously agreed that the differences would be minimal and would not impact the ultimate conclusion of the analysis. The subcommittee agrees with the conclusion of the fiscal analysis that, "Clearly, some significant savings are possible with the merger of school divisions."

B. Yearly Budget Process

Developing a budget that meets the needs of a school division and passes scrutiny of the local governing body is one of the most challenging aspects of school administration and governance. The subcommittee focused its budget discussion on the need to develop a solid yet adaptable process that helps to streamline the added complexity of two governing bodies coming together to fund one school division. Central to this is the development of a funding formula whereby requisite criteria can be used and plugged in annually. This can be as simple

or as complex as the localities would like to make it. The simplest example the subcommittee discussed was a budget broken down and apportioned on a per pupil cost basis. More complex formulas have existed historically and have included criteria such as real estate value, personal income, local sales tax collected, etc.

For negotiation and reconciliation, the subcommittee explored the use of conference committees populated by a set number of members from the involved bodies. Such a process is common throughout all levels of government and examples related to school funding exist currently in other parts of Virginia. It's worth noting that in the examples explored, language was found that discussed a previously agreed rate and/or formula. Such language seems to provide a level continuity between negotiation periods.

While previously agreed upon by the larger JSSC, the subcommittee discussed the idea of transferring debt service to the respective governing body for retirement.

Term length for a budget agreement was explored and current examples from around the state were examined. The subcommittee believes agreements pertaining to budget issues should be well-negotiated but flexible enough to allow for a changing fiscal environment. Williamsburg City and James City County, for example, renegotiate every 5 years and discussions only begin in a specific window prior to budget formulation at the end the 5 year period. This allows time for each locality to adjust for any changes in new agreement with minimal stress on future budget preparations.

C. Early Retirement Incentive Plan (ERIP)

Early in JSSC discussions, it was agreed that the impact of a school consolidation to faculty, staff, and their families should be minimized as much as possible and all current faculty and staff positions in both divisions be accommodated in any plan to merge the two divisions. Put simply, the desire is to not eliminate positions, but achieve a "right size" the faculty and staff situation through natural attrition and employee mobility. To this end, the Fiscal Analysis recommended an ERIP program to provide an early retirement option for teachers nearing the end of their career. There are obvious cost savings associated with this option as well, as retirement eligible faculty are nearly always at the top end of the pay scale. The analysis provided neighboring Rockbridge County as an example of a school division who has successfully employed such a program. Members of the subcommittee contacted Rockbridge County Public Schools to briefly discuss their plan and implementation, as well as changes made since initial offering. There will be initial costs associated with implementation and short term funding assistance from the state level will be vital to properly administer any plan. A "cap" of some degree to the program was also discussed, as it would be necessary for continuity and institutional knowledge sake to discourage entire departments or groups of staff from taking advantage of the ERIP program all at once.

D. Future Capital Expenses

Like the yearly budget process, developing a funding plan for capital expenditure in a consolidated division will be critical for the health of the division. It is equally important to establish a formula and process for equitable outlay of local dollars on necessary projects and upgrades to facilities. The subcommittee explored the possibility of using a formula the same or similar to the agreed upon yearly budget process as a basis for capital expenditure, while also realizing that individual situations may require additional negotiation as a result of property administration and/or ownership differences.

III. Recommendations

E. "Evidence of the cost savings to be realized by such consolidation" (Va.

Code § 22.1-25(D)) - As stated above, opportunities certainly exist for cost savings and efficiencies. The subcommittee recommends the use of the *Feasibility for Consolidation of Covington City and Alleghany County School Divisions* study authored by Mr. Regimbal and Mr. Salmon to show such evidence.

Yearly Budget Process – The subcommittee recommends the use of a per pupil funding formula as the foundation for the yearly budget creation. Such a formula would likely result in relative simplicity and equity.

Conference committees to resolve any variances, yearly budget or otherwise, seems to also be a basic and efficient method of resolution. The subcommittee recommends two members from each body involved as voting members plus executive participation as necessary.

There was no disagreement with the JSSC by the subcommittee pertaining to debt service. It is recommended that existing school debt be transferred to the respective locality for retirement.

The subcommittee recommends 3 -5 year terms for budget agreements. Such term lengths would provide stability while retaining the ability to renegotiate on a time table conducive to good budget preparation and projection strategies.

Early Retirement Incentive Program (ERIP) – It is recommended by the subcommittee that an ERIP program, considering the previously mentioned limitations and constraints, be implemented by the consolidated division as one of its first actions. Such an adoption will ensure a smoother transition and provide a catalyst to achieving ideal staffing levels.

Future Capital Expenses – The subcommittee recommends the development of a formula based on per pupil costs for capital expenses shared. As mentioned previously, more potential for complexity exists for capital projects, but a shared formula basis with the yearly budget process will provide stability and promote sound financial decision making.