Arlington County Civic Federation
Joint Report of the Revenues & Expenditures and Schools Committees on the County Board/School Board Revenue Sharing Agreement
Presented 6/2/09

At the May 2009 meeting of the Arlington County Civic Federation, a resolution was proposed by Joseph Pelton of the Chain Bridge Forest Civic Association, calling for a meeting of the County Board and School Board to consider ways to improve the current Revenue Sharing Agreement ("RSA") between the two Boards and to harmonize compensation practices. Due to the content of the proposed resolution, it was referred to both the Revenues & Expenditures Committee ("R&E") and the Schools Committee ("SC"), which were tasked with bringing forward a report and recommendation for the June Federation meeting.

After preliminary consultation with various members of each committee, the Chairmen of the two committees decided that it would be in the best interest of the Federation if the two committees could produce a joint report. Toward that end, the two committees met jointly on May 9. A total of 11 members (7 from R&E and 6 from SC – two individuals being members of both Committees), all very familiar with the RSA as part of the annual County and School budget reviews, participated in a lengthy and lively discussion. Mr. Pelton also participated in this meeting.

The final work product of this meeting is the attached proposed resolution, which was approved by substantial majority of members of both R&E and SC who were present at the meeting.

The resolution is meant to stand "on its own." The balance of this report should be viewed as supplemental material, providing background on the issue.

Prior to the FY2002 budget process, the School Board would prepare its annual budget request, including a proposed amount for the transfer payment to the Schools from the County General Fund budget. This transfer payment is the primary (but not the only) source of revenue in the Schools budget.

The County Board would then consider the School Board's transfer payment request, along with the budget proposal from the County Manager, and finalize the County Budget for each year, setting various tax rates and setting the amount of the transfer payment to the Schools.

The amount of the transfer payment was not necessarily what had been requested by the School Board, but was normally very close to it. It should be noted that, by state law, the County Board can only set the amount of the transfer payment – it cannot direct how the School Board spends its available revenues. Once the revenues (including the County transfer payment) were set, the School Board then would revise its original proposed budget to fit its expenditures within the available revenue, prioritizing as necessary.

This process for setting the transfer payment was typical for any governmental budget. The School Board would make its request, based upon its preliminary budget proposal. The public (including the Civic Federation) would weigh in on various items in the proposed Schools budget. The County Board would then take the request from the Schools (knowing the details within it for such things as compensation/benefits, new initiatives and capital programs) and consider it within the context of the overall County budget. Discussion would often be spirited. Not all stakeholders got everything they wanted each year.

Beginning with the FY2002 budget, the process of setting the School transfer payment was radically changed with the adoption of the RSA. Under the RSA, the School transfer payment was essentially put on "auto-pilot," being set by a pre-determined percentage of most County taxes. Our research indicates that approximately 15% of Virginia local jurisdictions have some formula of this type. The original RSA percentage (48.6%) was taken from the amount of the School transfer payment for FY2001. The County Board would set its tax rates and estimate its revenues as part of its budget process – and then a simple set of math calculations determined the School transfer payment. The School Board would then prepare its budget to fit within the pre-set transfer amount, plus other revenues available to the Schools. The Schools also received the same set percentage of any "close-out" revenues (revenues exceeding budgeted amounts) for each fiscal year, as well as any unexpended funds leftover from the original transfer calculation.

Since its inception in FY2002, the RSA has seen minor revisions. Provisions were added to annually adjust the percentage based upon student enrollment for the prior year; the percentage would go up or down, based upon a formula that attempted to isolate the "variable" incremental cost of an individual student. Further, certain tax increases were identified as being "dedicated" to specific items of County spending and not shared with the Schools under the RSA formula. Several examples of such increases are the personal property tax rate increase in FY2007 (dedicated to public safety pay enhancements) and the residential utilities tax (new in FY2008, dedicated to new environmental spending).

For the FY2010 budget, the County Board, citing enabling language in the RSA, excluded the incremental revenue from the 2.7 cent increase in the real estate tax rate for CY2009 from the RSA, retaining all of this revenue within the County budget.

The pros and cons of the RSA have been discussed within the Arlington community for years. When originally conceived, some supported the RSA for insuring the Schools would continue to receive their then-current percentage of most County revenues, while others favored it because they felt it would generally cap the Schools transfer as a portion of the overall County budget, after a decade of seeing the Schools portion increase. As pointed out by a School Board member during a recent appearance at a Federation meeting, the RSA serves to avoid the budget season "give and take" over the transfer payment between the County Board and the

School Board. Some residents see this as a plus, while others view it is a minus. Proponents see the RSA as giving the Schools predictability as to available revenues – a condition that, under current economic conditions, may not necessarily be the case. Since the RSA essentially makes the Schools budget "revenue driven," with the transfer payment being set by formula first and then Schools setting their spending within it, opponents of the RSA see it as counter-productive to transparent, accountable fiscal policy for the County as a whole, and an abrogation of basic governmental responsibilities by the County Board (of its oversight responsibility for Schools spending as a whole) and the School Board (since it does not have to justify its total budget as whole.)

As highlighted by the recent FY2010 budget season, the majority of both R&E and SC feel that the RSA as presently constituted has the following flaws:

- It does not account for the separate, relative needs of the Schools and the County (or the prioritization of those needs) - which do not necessarily move up (or down) together, and which do not necessarily move up (or down) in direct relationship to available revenues (wherever the real estate tax rate is set).
- It does not account for the relative debt service/capital needs of the Schools and the County, which by definition are not the same over time.
- It does not account for the relative compensation needs of the Schools and the County, each of which can be subject to appreciably differing pressures in any given budget year.

Mr. Pelton's proposed resolution also dealt with "harmonizing" County and Schools compensation practices. This concept was briefly discussed at the joint R&E/SC meeting, and it was decided that this issue is not directly related to the RSA concept and therefore has been excluded from our resolution. Given the separate elected bodies, each with unique responsibilities and subject to appreciably different competitive pressures, R&E and SC are offering no recommendation on compensation coordination between County and Schools employees.

RESOLUTION OF THE ARLINGTON COUNTY CIVIC FEDERATION ON THE REVENUE SHARING AGREEMENT

Whereas, prior to fiscal year 2002, the Arlington School Board would propose its annual budget and make a budgetary request to the County Board for funding of the School transfer payment from the County General Fund, which request was reviewed by the County Board in the context of available revenues and other proposed County expenditures, and funded in an amount set by the County Board at its discretion; and

Whereas, beginning in fiscal year 2002, a Revenue Sharing Agreement ("RSA") has existed between the County Board and School Board, under which the annual amount of the School transfer payment has been pre-determined by formula, giving the Schools a percentage of most (but not all) County taxes that varies somewhat with student enrollment; and

Whereas, the RSA by definition has resulted in the annual school system budgets being "revenue driven," with expenditures being established within the available, pre-determined funding, as opposed to being "needs driven," with a resulting loss of accountability in the schools' budget process; and

Whereas, while the existing RSA has been seen generally as a convenience that simplifies the budget-making process, it is apparent that the existing RSA may be becoming increasingly dysfunctional as a means of allocating County resources; and

Whereas, the RSA, by putting the determination of the school system's transfer payment essentially on "auto-pilot," is highly inflexible in responding to the differing budgetary pressures that affect the County Board and School Board in any given budget year; and

Whereas, today's fiscal environment is quite different from that which existed when the RSA was originally implemented, and the RSA, in its current construct, may no longer be the best means of ensuring adequate funding for the schools and proper balancing of the funding priorities of the school system and other County operations; now

Therefore, be it resolved that the Arlington County Civic Federation recommends that the County Board and School Board jointly reexamine the County's existing Revenue Sharing Agreement, with a view to abolishing it or modifying it to make it more appropriate to present conditions. This process should be undertaken promptly, in the expectation that the results can be implemented with the FY2011 budget process.