

17 October 2024

The Honorable Mary Kadera
Chair
Arlington School Board
Arlington, VA 22204

RE: FY 2026 Proposed School Board Budget Direction

Dear Ms. Kadera,

On behalf of the Advisory Council on School Facilities and Capital Programs (FAC), I am submitting comments on the School Board's proposed FY 2026 budget direction. The budget allocates operating funds of which a portion supports Arlington Public Schools (APS) programs within FAC's advisory remit.

The APS 2024-2030 Strategic Plan states that students will be assured a learning environment that is "high-quality [and] safe." To achieve this goal, the Board needs to invest in the maintenance and upkeep of APS' school facilities and other physical properties. Additionally, FAC is mindful of current revenue expectations and the difficulties the Board may have in balancing the FY 2026 budget if all identified needs are not met.

With this perspective, the FAC offers the following recommendations:

- **Minor Construction/Major Maintenance (MC/MM):** As you know, the MC/MM account took a \$1.5 million reduction in the approved FY 2025 budget, on the heels of a \$1.8 million reduction in FY 2024. We understand that APS plans to restore the \$1.5 million baseline, adjusted for inflation, in the FY 2026 budget proposal. The FAC supports this restoration.

The FAC also cautions against any efforts to turn again to this reserve set-aside to fund other accounts. Public comments received during that last budget cycle underscore the importance of well-maintained physical infrastructure to other Board goals of teacher recruitment and retention and the student learning environment, and that further delaying needed repairs is more likely increase costs over time. That said, we note that the proposed budget direction aims to "maintain general reserves, (including MC/MM and three other accounts), within a range of a *minimum* equivalent to 3% and a *maximum* of 5.5.% of the annual School Operating Fund." Given APS' estimated \$691 million operating budget, this translates into a set-aside to between \$20.7 million and \$38.0 million. At the lower end of the range, full-funding of all reserve accounts would not be achievable. We intend to monitor the development of the MC/MM account as FY 2026 budget progresses, especially since this year will be the first that APS uses a different more data-driven approach to assessing MC/MM needs.

- **Debt Service:** Along with MC/MM, the proposed budget direction calls out the importance of maintaining general reserves to cover debt service needs. This account is also of primary importance to the FAC. Debt service pays for the cost of bonds needed to finance major construction projects. While the cost of borrowing for the next bond issue may be higher than previous issues due to higher Federal fund rates, the cost of bond-funded projects is lower

because the Board and Arlington County Government are committed to retaining the County's triple A bond rating. The FAC commends the Board for this cost-saving practice.

- Use of Reserve Funds: The FAC commends the Board for proposing to restrict the use of reserve funds to one-time expenditures, not ongoing operating expenses. We understand the pressure you may face to preserve these accounts for their intended purpose given that the unforeseen circumstances for which the funds are reserved may not arise.

We note the Board's caution that correcting this past practice of using "one-time funds only for one-time expenditures" may take more than one year and the caveat that up to 25 percent of reserve funds could be allocated to ongoing operations, if needed, in FY 2026. We understand this to mean that the \$20.7 million to \$38.0 million set-aside for reserve fund accounts could be reduced to between \$15.5 and \$28.5 million and that that the "Compensation Reserve" account would be protected from the 25 percent reduction. In short, knowing that there will be no short-changing of the debt service account, the full 25 percent reduction will need to come from the MC/MM or Future Budget Years accounts. This outcome would likely undo the expectation that MC/MM funds would be restored. Please let us know if our assumptions are incorrect.

The FAC appreciates the opportunity to submit these comments. Please let me know if you have any questions.

Respectfully,

Cynthia Hilton

Cynthia Hilton
Chair

cc: Arlington School Board