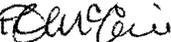


MEMORANDUM

September 21, 2010

TO: Education Committee

FROM: Essie McGuire, Legislative Analyst 

SUBJECT: **Worksession – Resolution to Approve Categorical Transfer of \$900,000 for Montgomery County Public Schools’ FY10 Operating Budget, and Review of MCPS FY10 Year-End Financial Report**

Today the Education Committee will review the FY10 year-end financial report of the Montgomery County Public Schools and consider a resolution to approve a categorical transfer of \$900,000 for the MCPS FY10 operating budget. Dr. Marshall Spatz, Director, Department of Management, Budget, and Planning, MCPS, will be present to discuss these issues with the Committee.

The Board of Education requested approval of the categorical transfers on August 5, 2010. A draft resolution is attached on circles 2-3 and the transmittal from the Board of Education is attached on circles 4-10. The County Executive recommends approval of this categorical transfer (circle 1). The County Council introduced this resolution on September 21, and is tentatively scheduled to take action on September 28.

Section 5-105 of the Education Article of the Annotated Code of Maryland provides for transfers among major categories of the MCPS operating budget only with the approval of the County Council. Categorical transfers are typically needed at the end of the fiscal year to align budgeted appropriations with actual expenditures. MCPS produces monthly financial reports, as required by law, and presents them to the Board of Education and transmits them to the County Council. In recent years, the Education Committee has regularly reviewed the financial reports and has discussed any expenditure surplus and deficit issues throughout the fiscal year.

The attached report shows actual FY10 year-end financial conditions for the school system, and reflects a net surplus of \$31,200,000. The Council assumed a total of \$10.3 million to fund the FY11 Operating Budget, and also assumed that \$19.7 million of FY10 savings would not be reappropriated to MCPS for FY11 but would add to FY10 County Government general fund undesignated reserves.

The expenditure surplus is primarily the result of the comprehensive expenditure restrictions and hiring freeze implemented on August 20, 2009. Circles 7-9 detail the reasons behind each category deficit or surplus. Table 1 below shows the actual FY10 year-end balance in each category relative to its Council approved appropriation.

Table 1: Expenditure Balance by State Category

| State Category | FY10 Appropriation | Actual year-end balance | % Variance of approved Category Budget |
|--|-------------------------------|------------------------------------|---|
| Cat 1: Administration | \$41,894,433 | \$1,862,479 | 4.4 |
| Cat 2: Mid-Level Administration | \$133,418,317 | \$2,076,598 | 1.6 |
| Cat 3: Instructional Salaries | \$823,055,679 | \$4,700,615 | 0.6 |
| Cat 4: Textbooks and Instructional Supplies | \$30,754,077 | \$5,189,453 | 16.9 |
| Cat 5: Other Instructional Costs | \$12,712,490 | \$2,467,136 | 19.4 |
| Cat 6: Special Education | \$249,645,642 | \$9,500,474 | 3.8 |
| Cat 7: Student Personnel Services | \$10,090,371 | (\$182,110) | (1.8) |
| Cat 8: Health Services | \$41,002 | \$1,671 | 4.1 |
| Cat 9: Student Transportation | \$92,993,511 | \$2,881,179 | 3.1 |
| Cat 10: Operation of Plant and Equipment | \$91,027,198 | \$1,181,182 | 1.3 |
| Cat 11: Maintenance of Plant | \$34,416,987 | (\$514,370) | (1.5) |
| Cat 12: Fixed Charges | \$424,626,970 | \$3,663,961 | 0.9 |

Council staff notes the following:

The deficit in **Category 11, Maintenance of Plant**, was primarily due to costs associated with snow removal during February, including overtime and contractual costs. The deficit in **Category 7, Student Personnel Services**, was primarily due to lower than anticipated lapse and turnover savings.

This report reflects a surplus of \$3.7 million for **Category 12, Fixed Charges**. In earlier reports, the surplus in this category was much higher (\$9.3 million as of April 30). The overall category surplus is due to the \$12 million that was budgeted for OPEB in this category but was not spent and held for savings instead. The following cost deficits in this category are being covered by a portion of the category 12 surplus:

- \$1.8 million to support health benefit expenses for employees in the Food and Nutrition Services Enterprise Fund;
- \$900,000 to offset higher actual costs for the Employee Benefit Plan; and
- \$300,000 to pay for increased costs of employee tuition expenses.

The ending surplus in this category is significantly lower than previously projected primarily due to an increased contribution to the Employee Benefit Plan Reserve of \$5.5 million. This contribution was not identified in previous financial reports. **The Committee may want to ask MCPS to comment on the timing and need for this contribution and its impact on the benefit plan reserve going forward.**

Council staff recommends approval of the requested categorical transfers.

SCHOOLS & ED



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

058546

Isiah Leggett
County Executive

EMC
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MEMORANDUM

August 25, 2010

TO: Nancy Floreen, Council President
FROM: Isiah Leggett, County Executive 
SUBJECT: Transfer Among Major Categories #11-306
FY10 Operating Budget
Montgomery County Public Schools
\$900,000

On August 5, 2010, the Board of Education requested a transfer of funds among state categories to align FY10 budgeted appropriations with actual expenditures. This is an annual bookkeeping transaction that has no impact on County resources.

The Board requests a transfer of \$900,000. This request would offset deficits in Student Personnel Services (Category 7) and Maintenance of Plant (Category 11) by transferring the surplus from Administration (Category 1).

These deficits were caused by lower than anticipated salary lapse and turnover savings and costs associated with snow removal during the month of February. The surplus used to balance these deficits is due to greater than budgeted lapse and turnover savings and savings achieved by comprehensive expenditure restrictions.

I recommend that the County Council approve this categorical transfer of \$900,000 in operating funds for the FY10 Operating Budget.

IL:bed

Attachments: Transfer Among Major Categories 11-306
Request from the Board of Education

2010 AUG 27 PM 2:33

RECEIVED
MONTGOMERY COUNTY
COUNCIL



Resolution No: _____
Introduced: _____
Adopted: _____

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

SUBJECT: Transfer Among Major Categories #11-306
FY10 Operating Budget
Montgomery County Public Schools
\$900,000

Background

1. Section 5-105 of the Education Article of the Annotated Code of Maryland provides for transfers among major categories of the Operating Budget of the Montgomery County Public Schools only with the approval of the County Council.
2. The County Executive received the Board of Education's request of August 5, 2010, for a transfer among state categories as follows:

| <u>Category</u> | <u>Description</u> | <u>From</u> | <u>To</u> |
|-----------------|----------------------------|------------------|------------------|
| 1 | Administration | \$900,000 | |
| 7 | Student Personnel Services | | \$250,000 |
| 11 | Maintenance of Plant | | \$650,000 |
| | Totals | \$900,000 | \$900,000 |

3. The Board of Education has requested authorization to make an FY10 categorical transfer to align budgeted appropriations with actual expenditures. This request would offset deficits in Student Personnel Services (Category 7) and Maintenance of Plant (Category 11) by transferring the surplus from Administration (Category 1).

Transfer Among Major Categories #11-306

August 23, 2010

Page 2

4. These deficits were caused by lower than anticipated salary lapse and turnover savings and costs associated with snow removal during the month of February. The surplus used to balance these deficits is due to greater than budgeted lapse and turnover savings and savings achieved by comprehensive expenditure restrictions.
5. The County Executive recommends approval of this transfer.

| <u>Category</u> | <u>Description</u> | <u>From</u> | <u>To</u> |
|-----------------|----------------------------|------------------|------------------|
| 1 | Administration | \$900,000 | |
| 7 | Student Personnel Services | | \$250,000 |
| 11 | Maintenance of Plant | | \$650,000 |
| | Totals | \$900,000 | \$900,000 |

Action

The County Council for Montgomery County, Maryland, approves the following action:

The FY10 Operating Budget of the Montgomery County Public Schools is hereby amended, and a transfer of appropriation is approved as follows:

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council



MONTGOMERY COUNTY PUBLIC SCHOOLS
MARYLAND
www.montgomeryschoolsmd.org

August 5, 2010

The Honorable Nancy Floreen, President
The Honorable Valerie Ervin, Vice President and Chair, Education Committee
Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Floreen and Ms. Ervin:

The purpose of this letter is to transmit the request of the Board of Education for a year-end categorical transfer of \$900,000 for Montgomery County Public Schools' (MCPS) Fiscal Year (FY) 2010 Operating Budget. The categorical transfer reports that MCPS has achieved all the savings goals requested by the county executive and the County Council.

The final FY 2011 Montgomery County operating budget included an assumption of \$30.0 million in savings by MCPS. As a result of the comprehensive expenditure restrictions and a hiring freeze instituted on August 20, 2009, MCPS exceeded the Council's expectations and saved a total of \$32.8 million. In addition to these direct savings, MCPS also made it possible for the County Government to realize a greater year-end fund balance by shifting the revenue source from local contribution for \$2.0 million of additional grant revenue received under the *American Recovery and Reinvestment Act of 2009*. We also absorbed \$2.0 million of increased payments of the county's Fuel Energy Tax for FY 2010 and FY 2011 by making FY 2010 savings in other accounts. This avoided the need for the County Council to provide additional appropriation to MCPS to make these payments. Finally, MCPS did not request \$19.7 million of local contribution during FY 2010 as a way of increasing the county's FY 2010 year-end fund balance, thus helping the county to retain its AAA bond rating status. MCPS has been a faithful partner to the county in making savings in its budget to help the county's fiscal position. Additionally, we joined with Montgomery County to obtain a waiver of the state Maintenance of Effort requirement for the FY 2011 Operating Budget.

The Board of Education intends to remain a valuable county partner as we begin to develop the FY 2012 Operating Budget. The members of the Board of Education and I look forward to continuing to work with you and members of the County Council to address the fiscal issues facing Montgomery County while preserving the educational excellence of which we are all proud.

Respectfully,

Jerry D. Weast, Ed.D.
Superintendent of Schools

JDW:jp
Enclosures
Copy to:

Members of the County Council
Members of the Board of Education
Office of the Superintendent of Schools

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

August 5, 2010

MEMORANDUM

To: The Honorable Isiah Leggett, County Executive
The Honorable Nancy Floreen, President,
Montgomery County Council

From: Jerry D. Weast, Superintendent of Schools 

Subject: Transmittal of Board of Education Item #3.3.1

Fiscal Year 2010 Operating Budget Categorical Transfer

BOE Meeting Date: July 26, 2010

Amount of Money: \$900,000

Type of Action: Categorical Transfer

JDW:LAB:MCS:jp

Attachment

Copy to:
Mr. Bowers
Dr. Spatz
Montgomery County Office of Management and Budget

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

July 26, 2010

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Fiscal Year 2010 Operating Budget Categorical Transfer

At the end of each fiscal year, Montgomery County Public Schools (MCPS) requests transfers among state categories to align budgeted appropriation with actual expenditures. Categorical transfers are subject to approval by the County Council. For Fiscal Year (FY) 2010, categorical transfers total \$900,000, less than 0.1 percent of the total operating budget.

Overall, the FY 2010 MCPS Operating Budget ended with an expenditure surplus of \$32,800,000. Expenditure savings are partially offset by a revenue shortfall of \$1.6 million, including \$850,000 resulting from reduced state reimbursement for special education non-public tuition and \$750,000 in reduced investment income due to reduced interest rates, for a net savings of \$31,200,000. The County Council assumed \$30.0 million of savings from FY 2010, including \$10,300,000 to fund the FY 2011 Operating Budget. The remaining \$19.7 million of savings was not requested as local contribution in 2010, which allowed Montgomery County to realize an increased FY 2010 ending fund balance. In addition, the county contribution was \$2.0 million less than budgeted because of a shift in revenue source resulting from additional federal grants under the *American Recovery and Reinvestment Act of 2009*, resulting in \$2.0 million of additional savings for the county.

The FY 2010 expenditure surplus was due in part to comprehensive expenditure restrictions and a hiring freeze implemented on August 20, 2009. Offsetting the savings from expenditure restrictions were deficits in Student Personnel Services (Category 7) and Maintenance of Plant (Category 11) totaling \$0.7 million. In order to achieve the required expenditure savings, a total of \$33.5 million in expenditure savings was made in other state categories.

During the past fiscal year, staff closely monitored revenue and expenditures. Coordinated by the Office of the Chief Operating Officer, monitoring is led by the Department of Management, Budget, and Planning (DMBP) and the Department of Financial Services. With the assistance of the Office of Human Resources and Development, DMBP closely monitors expenditures. This

financial monitoring process is extremely careful, comprehensive, and detailed. Primary and secondary account managers review each of their accounts on a monthly basis and report expenditure projections for the rest of the fiscal year. DMBP staff reviews and analyzes these projections using quantitative models, as well as knowledge of previous expenditure patterns and changing circumstances. Implementation of the Financial Management System (FMS), a comprehensive financial system integrated with the Human Resources Information System, has improved the ability to monitor and control expenditures and to successfully implement expenditure restrictions.

The Board of Education received detailed financial status reports throughout the past year. Each month, beginning in November, the Board has discussed the financial status report at its public meetings. These reports have been transmitted to the county executive, the county's Office of Management and Budget, and the County Council. Final FY 2010 expenditures are in line with the trends indicated in the monthly reports. The following summary presents the results in each of the categories in which actual expenditures through June 30, 2010, differed from the appropriation.

Category 1, Administration, reflected a surplus of \$1,862,479. The surplus is a result of greater than budgeted salary lapse and turnover savings (\$900,000) and other savings as a result of the comprehensive expenditure restrictions (\$950,000). Savings in Category 1 are 4.4 percent of budgeted expenditures.

Category 2, Mid-level Administration, reflected a surplus of \$2,076,598. The surplus is a result of greater than budgeted lapse and turnover savings (\$1,600,000), reductions in the acquisition of instructional materials (\$200,000), and other savings as a result of the comprehensive expenditure restrictions (\$300,000). Savings in Category 2 are 1.6 percent of budgeted expenditures.

Category 3, Instructional Salaries, reflected a surplus of \$4,700,615. The projected surplus is primarily a result of lower than budgeted expenditures for non-position salaries because of the comprehensive expenditure restrictions, including substitutes (\$1,200,000), sick and annual leave payout for terminated employees (\$500,000), and part-time salaries (\$600,000). Savings in non-position salaries are partially offset by lower than budgeted salary lapse and turnover savings (\$500,000). Additional savings were realized because of staff development activities limited by the comprehensive expenditure restrictions (\$1,700,000) and reduced usage of staff development substitutes (\$1,200,000).

Category 4, Textbooks and Instructional Supplies, reflected a surplus of \$5,189,453. The surplus is a result of reduced central acquisition of textbooks and instructional materials based on the comprehensive expenditure restrictions (\$3,700,000), savings in instructional materials in the Office of Curriculum and Instructional Programs (\$900,000), savings in expenditures for staff development training materials (\$300,000), and savings in printing and computer supplies (\$300,000).

Category 5, Other Instructional Costs, reflected a surplus of \$2,467,136. The surplus is a result of savings from the comprehensive expenditure restrictions. Savings included lower than anticipated contractual services expenditures (\$600,000), staff development expenditures (\$400,000), printing services (\$100,000), copier maintenance (\$500,000), travel reimbursement (\$300,000), and miscellaneous accounts (\$500,000).

Savings in regular instruction program costs in Categories 3, 4, and 5 are 1.4 percent of budgeted expenditures.

Category 6, Special Education, reflected a surplus of \$9,500,474. The surplus is due primarily to lower than budgeted costs of nonpublic placement tuition for special education students (\$6,300,000) because fewer students than expected required non-public placement and because the state of Maryland did not approve rate increases for non-public providers. There also is a surplus as a result of greater than anticipated salary lapse and turnover savings (\$2,000,000), a net surplus in non-position accounts resulting from the comprehensive expenditure restrictions (\$550,000), greater than projected revenue for Medicaid (\$350,000), and savings in other accounts resulting from the comprehensive expenditure restrictions (\$600,000). The surplus is partially offset by higher than budgeted costs of legal services (\$300,000). Savings in Category 6 are 3.8 percent of budgeted expenditures.

Category 7, Student Personnel Services, reflected a deficit of \$182,110. The deficit is the result of lower than anticipated salary lapse and turnover savings.

Category 8, Health Services, reflected a surplus of \$1,671 due to lower than anticipated program needs.

Category 9, Student Transportation, reflected a surplus of \$2,881,179. The projected surplus is primarily a result of lower than anticipated personnel costs because of reductions in the need for regular rate overtime salaries for bus operators (\$1,100,000). There also is a surplus due to lower than budgeted diesel fuel and bus parts costs (\$900,000) and bus repair costs (\$300,000). Fuel costs averaged approximately \$2.40 per gallon compared to the budgeted amount of \$2.50 per gallon. The surplus also resulted from a reduction in the use of activity buses (\$300,000) and savings in other accounts resulting from the comprehensive expenditure restrictions (\$300,000). Savings in Category 9 are 3.1 percent of budgeted expenditures.

Category 10, Operation of Plant and Equipment, reflected a surplus of \$1,181,182. The surplus results primarily from lower than anticipated expenditures for electricity (\$3,300,000) as a result of competitive bidding procedures that lock in prices for electricity purchases and lower usage, and lower than budgeted prices for natural gas (\$200,000). Savings also resulted from higher than anticipated salary lapse and turnover savings resulting from the comprehensive expenditure restrictions (\$600,000), and a decrease in the use of postage because of reductions in printing (\$200,000). These savings are offset by overtime expenses related to the February 2010 snow storms (\$1,100,000), some of which may ultimately be reimbursed by federal aid, and

prepayment of energy costs resulting from County Council action to increase the Fuel Energy Tax (\$2,000,000). The County Council assumed that MCPS would pay the increased tax during FY 2010 from other projected savings. Savings in Category 10 are 1.3 percent of budgeted expenditures.

Category 11, Maintenance of Plant, reflected a deficit of \$514,370. The deficit resulted from costs associated with snow removal during the month of February. This includes higher costs for overtime for snow removal, including costs for contractual services paid to contractors for snow removal, and additional costs incurred for fuel and equipment repairs.

Category 12, Fixed Charges, reflected a surplus of \$3,663,961. The surplus is a result of \$12,000,000 that was budgeted for pre-funding retiree health insurance benefits but was held for the year-end fund balance. The surplus is partially offset by the need to transfer approximately \$1.8 million in expenses for health benefits from the Food and Nutrition Services Enterprise Fund to the General Fund. It is projected that the Food and Nutrition Services Enterprise Fund will have a deficit of about \$1.8 million for FY 2010 without this transfer. This transfer is necessary to maintain the solvency of the Fund. In addition, there is an increase in expenditures projected for benefits over the amount supported by grant funds (\$300,000). Actual net costs for the Employee Benefit Plan (EBP) were 0.3 percent higher than budgeted levels (\$900,000). In addition, increased cost projections make it prudent to increase the contribution to the EBP reserve by \$5,500,000, as recommended by the County Council benefits consultant. These resources will be available in future years to offset unexpected cost increases. The projected surplus also is due to lower than anticipated social security payments resulting from the comprehensive expenditure restrictions (\$400,000). There also is a deficit resulting from the increased cost of reimbursements for employee tuition expenses (\$300,000). Savings in Category 12 are 0.9 percent of budgeted expenditures.

I recommend the Board of Education approve the following resolution regarding categorical transfers:

WHEREAS, Category 7, Student Personnel Services, reflected a deficit as of June 30, 2010, as a result of lower than expected lapse and turnover savings; and

WHEREAS, Category 11, Maintenance of Plant, reflected a deficit as of June 30, 2010, as a result of costs associated with snow removal during the month of February; and

WHEREAS, The required funds are available for transfer from Category 1, Administration; now therefore be it

Resolved, That the superintendent of schools be authorized, subject to the approval of the County Council, to effect the following categorical transfers:

| <u>Category</u> | <u>Description</u> | <u>To</u> | <u>From</u> |
|-----------------|----------------------------|------------------|-------------------|
| 1 | Administration | | \$900,000 |
| 7 | Student Personnel Services | \$250,000 | |
| 11 | Maintenance of Plant | <u>650,000</u> | <u> </u> |
| <u>Total</u> | | <u>\$900,000</u> | <u>\$900,000</u> |

and be it further

Resolved, That the county executive and County Council be given a copy of this resolution; and be it further

Resolved, That the county executive be requested to recommend approval of the categorical transfers to the County Council.

JDW:LAB:MCS:jp