

AGENDA ITEM #2C  
September 29, 2009  
**Action**

**MEMORANDUM**

September 25, 2009

TO: County Council

FROM: Essie McGuire, Legislative Analyst 

SUBJECT: **Action – Resolution to Approve Categorical Transfer of \$7,700,000 for Montgomery County Public Schools' FY09 Operating Budget, and Categorical Transfer of FY09 Grant Funds, \$1,205,000 and Review of MCPS FY09 Year-End Financial Report**

**EDUCATION COMMITTEE RECOMMENDATION**

**The Education Committee unanimously recommends approval of the categorical transfers.**

Today the County Council is scheduled to take action on a resolution to approve a categorical transfer of \$7,700,000 for the MCPS FY09 operating budget and a categorical transfer of \$1,205,000 of FY09 grant funds. The Board of Education requested approval of the categorical transfers on July 27, 2009. A draft resolution is attached on circles 1-2 and the transmittal from the Board of Education is attached on circles 3-8. The County Council introduced this resolution on September 15. The County Executive recommends approval of the categorical transfers (circle 9).

The Education Committee met on September 21 and reviewed the requested categorical transfers and the year-end FY09 financial report for the school system. The Education Committee unanimously recommended approval of the requested transfers.

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 FY09 year-end financial conditions for the school system, and reflects an overall surplus of \$20,700,000. This total consists of an expenditure surplus of \$19,500,000 and a revenue surplus of \$1,200,000. The County Council assumed that \$20 million would be available as fund balance as resource for the FY10 operating budget.

In addition, MCPS has received \$24,171,000 in FY09 funds from the State to correct the calculation error made in the original allocation of FY09 State Aid. These resources add to the ending fund balance, and were also assumed by the Council as available FY10 resources.

The expenditure surplus is primarily the result of the comprehensive expenditure restrictions and hiring freeze implemented on September 16, 2009. Circles 5-7 detail the reasons behind each category deficit or surplus. Table 1 below shows the actual FY09 year-end balance in each category relative to its Council approved appropriation.

**Table 1: Expenditure Balance by State Category**

State Category	FY09 Appropriation	Actual year-end balance	% Variance of approved Category Budget
Cat 1: Administration	\$41,874,103	\$1,931,000	4.6
Cat 2: Mid-Level Administration	\$135,871,420	\$3,381,000	2.5
Cat 3: Instructional Salaries	\$855,776,714	\$4,915,000	0.5
Cat 4: Textbooks and Instructional Supplies	\$31,903,762	\$4,651,000	14.6
Cat 5: Other Instructional Costs	\$15,093,701	\$2,105,000	13.9
Cat 6: Special Education	\$280,339,274	\$4,180,000	1.5
Cat 7: Student Personnel Services	\$11,175,378	<i>(\$134,000)</i>	<i>(1.2)</i>
Cat 8: Health Services	\$41,002	\$26,000	63.4
Cat 9: Student Transportation	\$92,765,998	\$3,958,000	4.3
Cat 10: Operation of Plant and Equipment	\$118,589,104	\$945,000	0.8
Cat 11: Maintenance of Plant	\$33,938,236	\$461,000	1.4
Cat 12: Fixed Charges	\$447,319,098	<i>(\$6,922,000)</i>	<i>(1.5)</i>

Council staff notes the following:

- The deficit in **Category 7, Student Personnel Services**, is the result of lower than anticipated salary lapse and turnover.
- **Category 12, Fixed Charges**, reflected a deficit of \$6.9 million, illustrating the significantly higher benefit costs that the system is experiencing. In addition to cost increases, MCPS increased the contribution to the benefit plan reserve by

\$3 million. The deficit was partially offset by lower than anticipated social security payments resulting from the hiring freeze.

- **Category 9, Student Transportation**, saw a significant surplus in fuel costs, with fuel expenses \$2.1 million lower than the budgeted level. Circle 6 reports that fuel costs averaged approximately \$2.15 per gallon while the budgeted level was \$2.75 per gallon. In FY08, this category ran a significant deficit due to fuel costs, with actual fuel costs of \$3.4 million more than budgeted.
- This resolution also approves a categorical transfer of **grant funds** under the Individuals with Disabilities Education Act (IDEA) grant, totaling \$1,205,000. This transfer would shift funds from Category 6, Special Education, to Category 12, Fixed Charges, to reflect the higher than anticipated benefit costs for employees under the grant.

Resolution No.: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

**SUBJECT:** Categorical Transfer  
FY09 Operating Budget  
Montgomery County Public Schools  
\$7,700,000  
and Categorical Transfer  
FY09 Operating Budget  
Montgomery County Public Schools  
Grant Funds: \$1,205,000

**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 Council received the Board of Education's action of July 27, 2009, requesting a transfer among state categories as follows:

<u>Category</u>	<u>Description</u>	<u>To</u>	<u>From</u>
1	Administration		\$1,500,000
2	Mid-Level Administration		\$3,000,000
7	Student Personnel Services	\$200,000	
9	Student Transportation		\$3,200,000
12	Fixed Charges	\$7,500,000	
	Total	\$7,700,000	\$7,700,000

3. The Board action of July 27, 2009, also requested a transfer of grant funds among state categories as follows:

<u>Category</u>	<u>Description</u>	<u>To</u>	<u>From</u>
6	Special Education		\$1,205,000
12	Fixed Charges	\$1,205,000	
	Total	\$1,205,000	\$1,205,000

4. The Board of Education has requested authorization to make an FY09 categorical transfer to align budgeted appropriations with actual expenditures. This request would offset deficits in Category 7, Student Personnel Services, and Category 12, Fixed Charges, by transferring surpluses from Category 1, Administration, Category 2, Mid-level Administration, and Category 9, Student Transportation.
5. The preponderance of the deficits was caused by lower than anticipated salary lapse and turnover in Category 7, Student Personnel Services, and higher than anticipated actual costs for the Employee-Benefit Plan in Category 12, Fixed Charges. The surpluses used to balance these deficits were generated primarily from expenditure restrictions and a hiring freeze implemented to generate mid-year savings.
6. The Board of Education has also requested authorization to make an FY09 categorical transfer of grant funds to align budgeted appropriations with actual expenditures. This request would offset a deficit in Category 12, Fixed Charges, with a surplus in Category 6, Special Education. The deficit was caused by higher than expected employee benefit costs in the Individuals with Disabilities Education Act (IDEA) Grant.
7. The County Executive recommends approval of the requested categorical transfers.

**Action**

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

The FY09 Operating Budget of the Montgomery County Public Schools is hereby amended, and a transfer of appropriation is approved as follows:

Category	Description	To	From
1	Administration		\$1,500,000
2	Mid-Level Administration		\$3,000,000
7	Student Personnel Services	\$200,000	
9	Student Transportation		\$3,200,000
12	Fixed Charges	\$7,500,000	
	Total	\$7,700,000	\$7,700,000

A transfer of grant funds is approved as follows:

Category	Description	To	From
6	Special Education		\$1,205,000
12	Fixed Charges	\$1,205,000	
	Total	\$1,205,000	\$1,205,000

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council

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

July 31, 2009

050664

MEMORANDUM

To: The Honorable Isiah Leggett, County Executive  
The Honorable Phil Andrews, President,  
Montgomery County Council

From: Jerry D. Weast, Superintendent of Schools 

Subject: Transmittal of Board of Education Item #3.3.1

FY 2009 Operating Budget Categorical Transfer

BOE Meeting Date: July 27, 2009

Amount of Money: \$7,700,000

Type of Action: Categorical Transfer

JDW:LAB:MCS:jp

Attachment

Copy to:

Department of Management, Budget, and Planning  
Montgomery County Office of Management and Budget

CC  
SBF  
LL  
OLC



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

July 27, 2009

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools 

Subject: FY 2009 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. These transfers are subject to approval by the County Council. For FY 2009, these transfers total \$7,700,000, approximately 0.4 percent of the total operating budget.

Overall, the FY 2009 MCPS Operating Budget ended with an expenditure surplus of \$19,500,000. Additionally, revenue was \$1,200,000 greater than budgeted so that the total savings in local contribution was \$20,700,000. The County Council assumed \$20.0 million of savings from FY 2009 to fund the FY 2010 Operating Budget.

The FY 2009 expenditure surplus was due in part to comprehensive expenditure restrictions and a hiring freeze imposed on September 16, 2009. Offsetting the savings from expenditure restrictions were deficits in Student Personnel Services (Category 7) and Fixed Charges (Category 12) totaling \$7.7 million. In order to achieve the required expenditure savings of \$18.7 million, a total of \$26.4 million in savings was made in other state categories. Revenue surplus resulted from higher than anticipated revenue for special education non-public placement tuition reimbursement and federal impact aid, partially offset by lower than anticipated summer school fees and other tuition revenue. As a result of legislation adopted by the state legislature at the 2009 session of the General Assembly, MCPS received \$24,171,000 in FY 2009 unrestricted Foundation state aid erroneously withheld. This additional revenue adds to the FY 2009 ending fund balance and was assumed by the County Council as resources available for the FY 2010 Operating Budget.

During the past fiscal year, staff has 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, 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 review and analyze 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, improved the ability to monitor and control expenditures and to successfully implement expenditure restrictions. Additional tools being developed to integrate the FMS system with other information systems will further improve financial controls during the coming fiscal year.

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 2009 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, 2009, differed from the appropriation.

Category 1, Administration, reflected a surplus of \$1,931,000. The surplus is a result of greater than budgeted salary lapse and turnover savings (\$500,000) and other savings as a result of the comprehensive expenditure restrictions (\$1,400,000). Savings in Category 1 are 4.4 percent of budgeted expenditures.

Category 2, Mid-level Administration, reflected a surplus of \$3,381,000. The surplus is a result of greater than budgeted lapse and turnover savings (\$1,300,000), reductions in the acquisition of instructional materials (\$250,000), and other savings as a result of the comprehensive expenditure restrictions (\$900,000). A portion of the savings resulted from using temporary part-time employees to fill some vacancies. In addition, \$900,000 in surplus resulted from taking a reduction for eight elementary intern positions from Category 3, Instructional Salaries, rather than Category 2, creating a surplus in this category. Savings in Category 2 are 2.5 percent of budgeted expenditures.

Category 3, Instructional Salaries, reflected a surplus of \$4,915,000. The projected surplus is a result of lower than projected expenditures for non-position salaries, primarily because of the comprehensive expenditure restrictions, including substitutes (\$1,100,000), sick and annual leave payout for terminated employees (\$300,000), clerical support (\$200,000), extracurricular activities stipends (\$300,000), and professional part-time salaries (\$1,500,000). 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 (\$650,000). These savings are partially offset by a deficit of \$900,000 resulting from taking a reduction for eight elementary intern positions from Category 3 rather than Category 2, Mid-level Administration.

Category 4, Textbooks and Instructional Supplies, reflected a surplus of \$4,651,000. The surplus is a result of reduced central acquisition of textbooks and instructional materials based on the comprehensive expenditure restrictions (\$3,600,000), savings in instructional materials in the Office of Curriculum and Instructional Programs (\$700,000), and lower than projected expenditures for training materials by the Office of Organizational Development (\$300,000).

Category 5, Other Instructional Costs, reflected a surplus of \$2,105,000. The surplus is a result of savings as a result of the comprehensive expenditure restrictions. Savings included lower than anticipated contractual services expenditures (\$700,000), staff development expenditures (\$500,000), printing services (\$100,000), school furniture and equipment (\$300,000), travel (\$200,000), and miscellaneous accounts (\$300,000).

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 \$4,180,000. The surplus is due primarily to lower than budgeted actual average salaries for staff (\$1,000,000), greater than anticipated salary lapse and turnover savings (\$3,000,000), and a net surplus in non-position accounts resulting from the comprehensive expenditure restrictions (\$900,000). There also is a surplus of \$600,000 due to greater than projected revenue for Medicaid that resulted from a moratorium on proposed new regulations that would have limited federal reimbursement. The surplus in Medicaid revenue decreased local funding for special education expenditures. The surplus is partially offset by higher than anticipated costs of nonpublic placement tuition for special education students (\$1,300,000). Savings in Category 6 are 1.7 percent of budgeted expenditures.

Category 7, Student Personnel Services, reflected a deficit of \$134,000. The deficit is the result of lower than anticipated salary lapse and turnover.

Category 8, Health Services, reflected a surplus of \$26,000 due to lower than anticipated program needs.

Category 9, Student Transportation, reflected a surplus of \$3,958,000. The projected surplus is mainly the result of lower than budgeted diesel fuel costs (\$2,100,000). These lower fuel costs reflect the nationwide decrease in the cost of gasoline and other petroleum products. Fuel costs have averaged approximately \$2.15 per gallon compared to the budgeted amount of \$2.75 per gallon. The surplus also resulted from lower than budgeted personnel and materials costs resulting in part from the comprehensive expenditure restrictions, including higher than anticipated salary lapse and non-position savings (\$1,300,000) and savings in bus parts and supplies due to reduced prices (\$600,000). Savings in Category 9 are 4.3 percent of budgeted expenditures.

Category 10, Operation of Plant and Equipment, reflected a surplus of \$945,000. The surplus resulted from lower than anticipated expenditures for electricity (\$650,000) as a result of new

bidding procedures, and lower than budgeted prices for heating oil (\$300,000). Savings in Category 10 are 0.8 percent of budgeted expenditures.

Category 11, Maintenance of Plant, reflected a surplus of \$461,000. The surplus resulted from higher than budgeted lapse and turnover savings (\$800,000), partially offset by higher than budgeted expenditures for maintenance supplies and materials (\$300,000). Savings in Category 11 are 1.4 percent of budgeted expenditures.

Category 12, Fixed Charges, reflected a deficit of \$6,922,000. Actual costs for the Employee Benefit Plan (EBP) were 2.5 percent higher than budgeted levels (\$5,500,000). In addition, increased cost projections make it prudent to increase the contribution to the EBP reserve by \$3,000,000, as recommended by the County Council benefits consultant. These resources will be available in future years to offset unexpected cost increases. The projected deficit also is due to the increased cost of reimbursements for employee tuition expenses (\$350,000). The deficit was partially offset by a surplus resulting from lower than anticipated social security payments resulting from the comprehensive expenditure restrictions (\$1,200,000) and lower than budgeted costs for tuition in university partnership programs (\$750,000).

In addition to the deficit in tax-supported funds in Category 12, there was a Category 12 deficit of \$1,205,000 in grant funds because of higher than anticipated employee benefits costs in the *Individuals with Disabilities Education Act* (IDEA) Grant, requiring a transfer of grant funds from Category 6, Special Education.

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, 2009, as a result of lower than expected lapse and turnover savings; and

WHEREAS, Category 12, Fixed Charges; reflected a deficit as of June 30, 2009, as a result of higher than anticipated costs for health insurance for active and retired employees, increased costs of tuition reimbursement for employees, and an increased contribution to the Employee Benefit Plan; and

WHEREAS, The required funds are available for transfer from Category 1, Administration; Category 2, Mid-level Administration; and Category 9, Student Transportation; and

WHEREAS, Category 12, Fixed Charges, reflected a deficit in grant funds as of June 30, 2009, as a result of higher than anticipated costs for employee benefits in the *Individuals with Disabilities Education Act* Grant; and

WHEREAS, The required funds are available for transfer from grant funds in Category 6, Special Education; 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		\$1,500,000
2	Mid-level Administration		3,000,000
7	Student Personnel Services	\$200,000	
9	Student Transportation		<u>3,200,000</u>
12	Fixed Charges	<u>7,500,000</u>	
	Total	<u>\$7,700,000</u>	<u>\$7,700,000</u>

and be it further

Resolved, That the superintendent of schools be authorized, subject to the approval of the County Council, to effect the following categorical transfer in grant funds:

<u>Category</u>	<u>Description</u>	<u>To</u>	<u>From</u>
6	Special Education		\$1,205,000
12	Fixed Charges	<u>\$1,205,000</u>	
	Total	<u>\$1,205,000</u>	<u>\$1,205,000</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



OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

MEMORANDUM

September 16, 2009

2009 SEP 16 PM 2:13

RECEIVED  
MONTGOMERY COUNTY  
COUNCIL

TO: Phil Andrews, President, County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Transfers Among Major Categories #10-285  
FY09 Operating Budget, Montgomery County Public Schools, \$7,700,000  
and FY09 Operating Budget, Montgomery County Public Schools  
Grant Funds: \$1,205,000

On July 27, 2009, the Board of Education requested transfers of funds among State categories to align FY09 budgeted appropriations with actual expenditures. This is an annual bookkeeping transaction that has no impact on County resources.

The Board requests transfers of \$7,700,000 and \$1,205,000 (grant funds). This request would offset deficits in Student Personnel Services (Category 7) and Fixed Charges (Category 12) by transferring surpluses from Administration (Category 1), Mid-level Administration (Category 2), Special Education (Category 6), and Student Transportation (Category 9).

The preponderance of the deficits was caused by higher than expected costs for the Employee Benefit Plan, an increased contribution to the Employee Benefit Plan, the increased cost of reimbursements for employee tuition expenses, and higher than anticipated employee benefits costs in the Individuals with Disabilities Act grant (grant funds). The surpluses used to balance these deficits are due primarily to savings achieved by comprehensive expenditure restrictions, a hiring freeze, greater than budgeted lapse and turnover savings, postponing the acquisition of textbooks and instructional materials, and lower than budgeted diesel fuel costs.

I recommend that the County Council approve these categorical transfers of \$7,700,000 in operating funds and \$1,205,000 in grant funds for the FY09 Operating Budget.

IL:bd