

ED COMMITTEE #3  
January 29, 2015  
**Briefing**

**MEMORANDUM**

January 28, 2015

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst 

SUBJECT: **Review of MCPS Monthly Financial Report and FY15 Savings Plan**

Today the Education Committee will review the most recent monthly financial report of the Montgomery County Public Schools (MCPS) and the FY15 savings plan. Tom Klausung, Director, Office of Management, Budget, and Planning, MCPS, will be present to brief the Committee and answer any questions.

The most recent financial report was presented to the Board of Education on January 13 and reflects financial conditions at MCPS as of November 30, 2014. The report is attached on circles 1-9. **The report projects a year-end budget surplus of nearly \$27 million.** This projection includes anticipated savings from the FY15 expenditure restrictions imposed by the Superintendent on November 26, 2014.

The fund balance represents savings achieved by the school system and funds not spent in a given fiscal year. MCPS is prohibited by State law from ending the year in deficit; as a result MCPS ends each year with some surplus. These funds cannot be spent by MCPS until they are appropriated by the Council. Typically, the Council reappropriates the fund balance as a resource for the following year's budget as part of the annual appropriation resolution.

This is the first month that the projected savings in the financial report reflect the impact of the mid-year savings plan. On November 26, the Superintendent informed the Council President (letter attached on circle 10) that he was implementing a comprehensive set of expenditure restrictions including a hiring freeze to generate savings as a resource for funding the FY16 budget. Attached on circles 11-18 is a more detailed memorandum to MCPS Executive Staff that outlines the specific restrictions in the areas of positions, contractual services, supplies and materials, and other expenditures.

Overall, the expenditure restrictions are similar to those implemented in previous years' savings plans (most recently in FY11). A hiring freeze is in place, vacant positions will be filled with substitutes where necessary, and schools and offices must request exceptions for most expenditures.

A significant portion of the school system's budget is spent or encumbered very early in the fiscal year, coinciding with the beginning of the school year. The financial report states the percent of each category that is already spent or encumbered. The major position categories (Mid-Level Administration, Instruction, Special Education) have over 90 percent of their budgeted funds committed. The savings in these position areas largely come from turnover and lapse savings, as well as savings from hiring long term substitutes rather than permanent positions if vacancies occur.

MCPS projects a \$700,000 surplus in fuel costs (Category 9, Student Transportation) related to lower than expected fuel costs. However, Category 10, Operation of Plant and Equipment, has a projected deficit of \$600,000 for utilities, reporting that consumption for electricity and natural gas are higher than budgeted. The report cautions that harsh weather could exacerbate this deficit.

The Committee will continue to review the monthly financial reports and the results and impacts of the savings plan in future worksessions and as it reviews the FY16 budget for MCPS.

DISCUSSION

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

January 13, 2015

MEMORANDUM

To: Members of the Board of Education  
From: Joshua P. Starr, Superintendent of Schools  
Subject: Monthly Financial Report

This financial report reflects the actual financial condition of Montgomery County Public Schools (MCPS) as of November 30, 2014, and projections through June 30, 2015, based on program requirements and estimates made by primary and secondary account managers. At this time, revenues have a projected surplus of \$1.88 million, which is \$80,000 more than reported last month. Expenses are projected to have a surplus of \$25.1 million, which is \$12.1 million more than the 13.0 million projected last month. The change in expenditures is primarily due to the implementation of Fiscal Year (FY) 2015 Operating Budget expenditure restrictions that were effective on November 24, 2014.

The County Council appropriated \$38,172,451 of fund balance for the FY 2015 Operating Budget. As a result of additional savings realized at the end of FY 2014, the FY 2015 beginning fund balance was \$1,182,633. Based on revenue and expenditure projections as of November 30, 2014, the FY 2015 fund balance at year end will be \$28.16 million. This amount will be used to help fund the FY 2016 Operating Budget.

Last month, I reported that there are three potential uncertainties which could result in category deficits and/or reductions to the reported surplus. First, harsh weather conditions similar to last year, as well as the price for the portion of electricity and natural gas that is purchased at market rates, could result in increased utilities costs. However, due to the expenditure restrictions now in place, Category 10 is less likely to end the year in deficit.

The second concern is related to the projected cost of additional students with disabilities placed in nonpublic school-age day programs. Last year, the number of students enrolled in nonpublic school-age day programs increased significantly from the prior year. Because the increase occurred during a period of several months, and after the FY 2015 Operating Budget was developed, the current FY 2015 projection for Category 6 included a deficit for nonpublic placements. There was a concern that if the number of students placed in nonpublic programs continued to increase more than projected, costs would increase and Category 6 may end the year in deficit. As the number of students is not increasing in the similar pattern as last year, the tuition projection for this report is lower, and Category 6 is not expected to end the year in deficit.

The third concern related to projected active employee and retiree health care costs. Based on the County Council's final action on the FY 2015 Operating Budget, we are projecting a reduction of the reserve in the Employee Benefit Plan trust funds to approximately 1 percent of annual expenditures. While I am now projecting a small surplus in Category 12, I continue to be concerned that if claims for the remaining months of the year are higher than currently projected, there may be an insufficient balance in the trust fund to cover costs. Additional information about the projections for Categories 6, 10, and 12 is provided below.

Attachment 1 presents a chart displaying budgeted and projected revenues as reflected in this report. Attachment 2 is a chart detailing expenditure information by state category. The chart illustrates authorized (budgeted) expenditures, actual year-to-date expenditures and encumbrances, projected expenditures for the remainder of the fiscal year, and the projected year-end balance as reflected in this report.

## REVENUE

Total revenue is projected to be \$2,289,168,298, which is \$1,880,000 more than the current budget of \$2,287,288,298. There is an increase of \$80,000 from last month's projection.

### County

The projected revenue from the county is \$1,476,855,309. This is the same as the amount budgeted for FY 2015, and the same as projected last month.

### State

The projected revenue from the state is \$620,665,933. This is \$1.9 million more than the amount budgeted, and a reduction of \$100,000 from the amount reported last month. The surplus revenue is related to the projected amount that MCPS will receive for special education students who attend nonpublic schools. While there are more students projected to attend nonpublic school-age day programs than was anticipated when the FY 2015 Operating Budget was developed, the number has been reduced from last month. MCPS is required to pay 300 percent of the average per pupil cost plus 30 percent of the tuition amount that exceeds the 300 percent amount. The state pays 70 percent of the amount that exceeds the 300 percent amount. If total tuition costs are higher, state revenue will be higher.

### Federal

The projected revenue from Impact Aid is \$200,000, which is the same as the amount projected last month. This is \$200,000 less than the \$400,000 budgeted.

### Other

The projected revenue from other sources is \$4,055,708, which is \$180,000 more than previously reported. The additional revenue is from summer school fees.

**Appropriated Fund Balance**

The projected revenue from appropriated fund balance remains at \$40,682,985. This amount includes \$2,510,534 for prior-year encumbrances.

**Enterprise Funds**

The projected revenue from enterprise funds is \$60,818,601.

**Supported Projects**

The anticipated revenue of \$85,889,763 for supported projects has not changed from last month. This estimate includes \$7,985,829 carried forward from FY 2014. Projects approved through November 30, 2014, have been assigned \$80,778,174.

**EXPENDITURES**

There is a projected surplus of \$25,100,000, which is \$12.1 million more than the \$13 million reported last month. As a result of expenditure restrictions put in place on November 24, 2014, all categories are now projected to end the year in surplus. The following provides an explanation of the projections for each category.

**Category 1—Administration**

There is a projected end-of-year surplus of \$1,500,000 in Category 1, Administration, which is \$1 million more than the \$500,000 surplus projected last month. As of November 30, 2014, 89.9 percent of the funds budgeted in this category have been spent or encumbered. It is projected that an additional \$2.9 million, or 6.7 percent of budgeted funds, will be spent during the remainder of the year for equipment maintenance, supplies, and other items that are essential to MCPS operations. There currently are 12.3 vacant Full-time Equivalent (FTE) positions and a projected salary surplus of \$1.7 million. This is \$700,000 more than the position salary surplus reported last month. Additional vacancies that occur during the year will generate additional surplus. Temporary part-time salaries that were projected to be on budget last month are now projected to have a surplus of \$70,000. In addition, the \$500,000 deficit projected last month for contractual services has improved by \$85,000 to \$415,000. The overall deficit is related to legal fees and the hiring of outside contractors for technology services as a result of vacant positions. A surplus of \$145,000 is now projected for supplies and materials, other expenditures, and equipment.

**Category 2—Mid-level Administration**

Last month's projected end-of-year surplus in Category 2, Mid-level Administration, of \$2.5 million has increased by \$1 million to \$3.5 million. As of November 30, 2014, 95.5 percent of the funds budgeted in this category have been spent or encumbered, and it is anticipated that an additional \$2.8 million, or 2 percent of budgeted funds, will be expended during the remaining months of the year for essential services. Currently, there are 24.1 vacant FTE positions, 1.0 FTE

position less than last month. The projected surplus in position salaries is \$2.9 million, which is \$500,000 more than that the \$2.4 million surplus reported last month. In addition, there is a surplus of \$250,000 projected for temporary part-time salaries due to expenditure restrictions. The projected surplus of \$100,000 in contractual services, supplies and materials, and for mileage reimbursement for local travel reported last month has increased by \$300,000 to \$400,000.

### **Category 3—Instructional Salaries**

Category 3, Instructional Salaries, is projected to end the year with a surplus of \$11.5 million, which is \$2.5 million more than reported last month. As of November 30, 2014, 96 percent of the funds budgeted in this category have been spent or encumbered. It is projected that an additional \$23.4 million, or 2.7 percent of the budgeted amount, will be spent during the remainder of the year. There is an \$8.5 million surplus projected for position salaries, which is \$1.5 million more than the \$7 million surplus reported last month. This projection is based on trend data from prior years when expenditure restrictions were in place. There are 166.2 vacant FTE positions, most of which are being filled by long-term teacher substitutes. The \$2 million surplus projected in temporary part-time salaries last month has increased by \$1 million to \$3 million. While the original surplus was related to lower than budgeted expenses for short-term substitutes, long-term leave, and sick and annual leave payments to employees, the additional surplus is primarily a result of additional savings in stipends and substitutes for professional development.

### **Category 4—Textbooks and Instructional Supplies**

Expenditures in Category 4, Textbooks and Instructional Supplies, are projected to have a surplus of \$3.5 million. This is \$2.5 million higher than the \$1.0 million surplus projected last month. As of November 30, 2014, approximately 51.3 percent of the funds budgeted in this category have been spent or encumbered. It is projected that an additional \$10.4 million, or 36.5 percent of the budgeted amount, will be spent during the remainder of the year. Schools and offices will purchase only those textbooks, materials, and supplies that are essential.

### **Category 5—Other Instructional Costs**

While expenditures in Category 5, Other Instructional Costs, were projected to be on budget last month, there is now a projected surplus of \$500,000. As of November 30, 2014, approximately 47.9 percent of the funds budgeted in this category have been spent or encumbered. It is projected that \$5.1 million will be spent during the year to cover a variety of expenditures, including costs for interscholastic sports and maintenance of duplicating equipment.

### **Category 6—Special Education**

Expenditures for Category 6, Special Education, are projected to have a surplus of \$2 million. Last month, the category was projected to end the year on budget. As of November 30, 2014, 95.2 percent of the funds budgeted in this category have been spent or encumbered. It is projected that an additional \$11.3 million, or 4.1 percent of the budget, will be spent during the remainder of the year. Currently, there are 58.3 vacant FTE positions. Position salary balances resulting

from vacant FTE positions are offset by long-term substitutes for classroom coverage, temporary part-time salaries, and contractual services to provide services to students with disabilities as prescribed on their Individualized Education Program. This results in an overall surplus of \$1.6 million. This is \$200,000 more than the surplus projected last month. In addition, there is a surplus of \$400,000 for tuition for students with disabilities served in nonpublic programs. This surplus represents a change of \$1.8 million from the deficit of \$1.4 million previously projected. Last year, the Office of Special Education and Student Services experienced a significant increase in the number of referrals for nonpublic programs for elementary and high school students with emotional disabilities and elementary students with autism. The deficit reported last month assumed that this trend would continue. However, current projections reflect that the number of referrals is not following last year's trend.

#### **Category 7—Student Personnel Services**

Expenditures for Category 7, Student Personnel Services, are projected to have a surplus of \$100,000. Last month the category was projected to be on budget. As of November 30, 2014, approximately 96.4 percent of all budgeted funds in this category have been spent or encumbered. There are 3.0 vacant FTE positions, and the position salary balance remains at \$75,000. Based on expenditure restrictions, a surplus of \$25,000 is now projected for part-time salaries and operating expenses.

#### **Category 9—Student Transportation**

Category 9, Student Transportation, is expected to end the year with a surplus of \$500,000. The category was projected to be on budget last month. As of November 30, 2014, approximately 81.6 percent of all budgeted funds in this category have been spent or encumbered. The position salary surplus of \$1.8 million reported last month has increased by \$100,000 to \$1.9 million. The \$2.3 million deficit for temporary part-time salaries projected last month has increased by \$200,000 to a deficit of \$2.5 million. It is projected that additional bus operator position vacancies will be filled with part-time bus operators. The projected surplus of \$500,000 reported last month for bus fuel has increased by \$200,000 to \$700,000. Expenditures for bus repairs and bus supplies are now projected to end the year with a surplus of \$400,000.

#### **Category 10—Operation of Plant and Equipment**

Expenditures for Category 10, Operation of Plant and Equipment, are projected to have a surplus of \$1 million. Last month, it was anticipated that the category would end the year on budget. As of November 30, 2014, approximately 75.5 percent of all budgeted funds in this category have been spent or encumbered, and \$30.7 million, or 23.8 percent of the budget, is expected to be spent throughout the remainder of the year. Currently, there are 60.7 FTE position vacancies, primarily building service positions. This is nine more vacancies than reported last month. The projected position salary surplus of \$1.4 million projected last month has increased by \$800,000 to \$2.2 million. The projected deficit of \$500,000 for building service substitute salaries and long-term leave has improved by \$100,000 resulting in a projected deficit of \$400,000. Also, the deficit of \$400,000 reported last month for vehicle operating costs in the Department of Materials

Management has improved by \$200,000, resulting in a deficit of \$200,000. Based on another month of actual data, there is a projected deficit of \$600,000 for utilities, which is \$100,000 more than the \$500,000 deficit reported last month. Consumption and rates for electricity, and rates for natural gas, are projected to be slightly higher than budgeted.

#### **Category 11—Maintenance of Plant**

Expenditures in Category 11, Maintenance of Plant, are projected to have a surplus of \$500,000. Last month, the category was projected to be on budget. Approximately 81.7 percent of budgeted funds have been spent or encumbered as of November 30, 2014. An additional \$5.7 million, or 16.8 percent of the budget, is expected to be spent during the remainder of the year. There are currently 31.0 FTE position vacancies, and the position salary savings from lapse and turnover of \$700,000 reported last month has increased by \$500,000 to \$1.2 million. Projected offsetting deficits of \$50,000 for long-term leave, \$400,000 for maintenance and grounds care supplies and equipment, and \$250,000 for vehicle operating costs remain the same as reported last month.

#### **Category 12—Fixed Charges**

At this time, expenditures for Category 12, Fixed Charges, are projected to have a surplus of \$500,000. Last month, Category 12 was projected to be on budget. Approximately 47 percent of budgeted funds have been spent as of November 30, 2014. Last spring, as part of final action on the FY 2015 Operating Budget, the County Council reduced the budget for Category 12 by \$40.5 million by using reserve funds from our health care trust funds. Of the \$40.5 million, \$27.2 million of the \$51.1 million in the MCPS Other Post-Employment Benefits Trust Fund was shifted to the Employee Benefit Plan Retiree Trust Fund to pay for retiree health costs. In addition, \$13.3 million was cut with the intention of reducing the Employee Benefit Plan Retiree Trust Fund balance of \$18.5 million for retirees to \$5.2 million beginning in FY 2015. Based on actual FY 2014 experience and current projections for FY 2015 (based on four months of actual data), the fund balance for both active employees and retirees is projected to be below \$4 million, or less than 1 percent of annual expenditures. If claims are higher than projected for the remaining months of the fiscal year, the surplus may be reduced or eliminated.

JPS:LAB:TPK:jp

Attachments

**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
**Monthly Financial Report and Year-end Projections**  
**As of November 30, 2014**

**REVENUE**

Source	FY 2015 Original Budget	Revised Budget(a)	Projection		Current Report Variance Over (Under) Revised Budget
			As of 11/30/2014	As of 10/30/2014	
County	\$ 1,476,855,309	\$ 1,476,855,309	\$ 1,476,855,309	\$ 1,476,855,309	\$ -
State	618,765,933	618,765,933	620,665,933	620,765,933	1,900,000
Federal	400,000	400,000	200,000	200,000	(200,000)
Other	3,875,708	3,875,708	4,055,708	3,875,708	180,000
Appropriated fund balance	38,172,451	40,682,985 (b)	40,682,985	40,682,985	-
<b>Subtotal</b>	<b>2,138,069,401</b>	<b>2,140,579,935</b>	<b>2,142,459,935</b>	<b>2,142,379,935</b>	<b>1,880,000</b>
Food Services	51,222,406	51,248,217	51,248,217	51,248,217	-
Real Estate Management	3,166,047	3,166,047	3,166,047	3,166,047	-
Field Trip	1,895,960	1,895,960	1,895,960	1,895,960	-
Entrepreneurial Activities	2,910,612	2,911,998	2,911,998	2,911,998	-
Instructional Television	1,595,624	1,596,379	1,596,379	1,596,379	-
Supported Projects	77,903,934	85,889,763 (c)	85,889,763	85,889,763	-
<b>Total</b>	<b>\$ 2,276,763,984</b>	<b>\$ 2,287,288,298</b>	<b>\$ 2,289,168,298</b>	<b>\$ 2,289,088,298</b>	<b>\$ 1,880,000</b>

## Notes:

- (a) Revised budget includes carryover of prior-year encumbrances.  
(b) Includes \$2,510,534 for prior-year encumbrances.  
(c) Includes \$7,985,829 carried forward from FY 2014.

**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
**Monthly Financial Report and Year-end Projections**  
**As of November 30, 2014**

**EXPENDITURES**

Category	Authorized Expenditures	Actual Year-to-Date Expenditures 11/30/2014	Encumbrances 11/30/2014	Expenditures and Encumbrances 11/30/2014	Projected Expenditures 6/30/2015	Current Report Projected Year-end Balance	Prior Report Projected Year-end Balance	Variance Over (Under)	(a) Percentage
01 Administration	\$ 43,777,985	\$ 18,716,510	\$ 20,636,103	\$ 39,352,613	\$ 2,925,372	\$ 1,500,000	\$ 500,000	\$ 1,000,000	3.43
Position salaries	29,056,049	11,838,282	19,854,285	31,692,567					
Non-position salaries	1,092,281	275,420	1,713	277,133					
Operating expenses	7,875,974	6,602,809	780,105	7,382,913					
02 Mid-level Administration	140,211,204	\$ 49,278,957	\$ 84,677,591	\$ 133,956,548	2,754,656	3,500,000	2,500,000	1,000,000	2.50
Position salaries	128,763,579	48,098,123	84,051,723	132,149,846					
Non-position salaries	2,211,963	851,738	288,430	1,140,168					
Operating expenses	2,965,522	329,096	337,438	666,534					
03 Instructional Salaries	873,419,754	268,956,263	569,513,879	838,470,142	23,449,612	11,500,000	9,000,000	2,500,000	1.32
Position salaries	754,021,949	249,279,007	568,399,931	817,678,939					
Non-position salaries	43,784,108	19,677,256	1,113,948	20,791,203					
04 Textbooks and Supplies	28,541,394	11,292,173	3,341,294	14,633,466	10,407,928	3,500,000	1,000,000	2,500,000	12.26
05 Other Instructional Costs	10,815,194	3,459,307	1,723,694	5,183,001	5,132,193	500,000		500,000	4.62
06 Special Education	279,559,324	81,943,458	184,275,015	266,218,473	11,340,851	2,000,000		2,000,000	0.72
Position salaries	205,618,938	69,194,446	155,135,271	224,329,716					
Non-position salaries	2,247,605	3,202,603	306,839	3,509,442					
Operating expenses	38,126,984	9,546,410	28,832,905	38,379,314					
07 Student Personnel Services	11,003,033	4,042,979	6,567,475	10,610,454	292,579	100,000		100,000	0.91
Position salaries	10,013,994	3,886,470	6,560,044	10,446,513					
Non-position salaries	86,363	97,990	0	97,990					
Operating expenses	184,736	58,519	7,431	65,950					
08 Health Services	3,590	765	(0)	765	2,825	-		-	-
Position salaries				-					
Non-position salaries		0	0	-					
Operating expenses		765	(0)	765					

**MONTGOMERY COUNTY PUBLIC SCHOOLS  
Monthly Financial Report and Year-end Projections  
As of November 30, 2014**

**EXPENDITURES**

Category	Authorized Expenditures	Actual Year-to-Date Expenditures 11/30/2014	Encumbrances 11/30/2014	Expenditures and Encumbrances 11/30/2014	Projected Expenditures 6/30/2015	Current Report Projected Year-end Balance	Prior Report Projected Year-end Balance	Variance Over (Under)	(a) Percentage
09 Student Transportation	101,491,729	30,758,193	52,068,874	82,827,068	18,164,662	500,000		500,000	0.49
Position salaries	62,840,954	20,396,159	45,098,249	65,494,408					
Non-position salaries	4,404,462	3,763,720	168,356	3,932,076					
Operating expenses	26,231,492	6,598,315	6,802,269	13,400,584					
10 Operation of Plant & Equipment	129,127,445	47,536,198	49,905,003	97,441,201	30,686,244	1,000,000		1,000,000	0.77
Position salaries	60,785,737	28,313,998	47,363,142	75,677,140					
Non-position salaries	2,133,738	1,221,564	693,034	1,914,599					
Operating expenses	53,612,581	18,000,636	1,848,827	19,849,463					
11 Maintenance of Plant	33,647,443	11,626,801	15,860,737	27,487,538	5,659,904	500,000		500,000	1.49
Position salaries	23,107,625	8,043,649	13,306,763	21,350,411					
Non-position salaries	939,404	417,766	145,040	562,806					
Operating expenses	8,629,123	3,165,386	2,408,935	5,574,321					
12 Fixed Charges	488,881,840	229,683,785	115,469	229,799,254	258,582,586	500,000		500,000	0.10
14 Community Services	100,000	53,169	0	53,169	46,831				
Non-position salaries		0	0	-					
Operating expenses		53,169	0	53,169					
Subtotal	2,140,579,935	757,348,558	988,685,134	1,746,033,692	369,446,243	25,100,000	13,000,000	12,100,000	1.17
61 Food Services	51,248,217	19,476,078	13,394,957	32,871,035	18,377,181	-	-	-	-
51 Real Estate Management	3,166,047	777,010	1,384,708	2,161,718	1,004,329	-	-	-	-
71 Field Trip	1,895,960	531,897	192,254	724,151	1,171,809	-	-	-	-
81 Entrepreneurial Activities	2,911,998	1,221,209	720,891	1,942,100	969,897	-	-	-	-
37 Instructional Television Supported Projects	1,596,379	573,992	687,521	1,261,513	334,867	-	-	-	-
Supported Projects	85,889,763	25,368,817	30,838,172	56,206,990	29,682,773	-	-	-	-
Total	\$ 2,287,288,298	\$ 805,297,561	\$ 1,035,903,637	\$ 1,841,201,198	\$ 420,987,100	\$ 25,100,000	\$ 13,000,000	\$ 12,100,000	1.10
	2,242,144,537								

Note:

394,546,243

(a) Percentage of projected year-end balance to authorized expenditures.

(6)



**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
MARYLAND  
www.montgomeryschoolsmd.org

November 26, 2014



The Honorable Craig Rice, President  
Montgomery County Council  
Stella B. Werner Council Office Building  
100 Maryland Avenue  
Rockville, Maryland 20850

Dear Mr. Rice:

Given the serious challenges we face with the funding gap that is projected for the Fiscal Year (FY) 2016 Operating Budget, I have determined that it is necessary to impose restrictions on expenditures for Montgomery County Public Schools (MCPS) in the current fiscal year. These restrictions are expected to save funding during FY 2015 to help close the funding gap for FY 2016. These expenditure restrictions are effective November 24, 2014, and will remain in effect until further notice.

As a result of actions on our FY 2015 Operating Budget, MCPS started this fiscal year with a fund balance of \$1.2 million. Based on the most recent financial report that I provided to the Board of Education on November 11, 2014, MCPS is projected to end the fiscal year with approximately \$16 million of fund balance based on anticipated revenue and expenditure surpluses for the year.

I have put into place a comprehensive set of expenditure restrictions, including a hiring freeze, to increase this fund balance. Offices and schools will be expected to make only necessary expenditures. Certain exemptions are permitted to ensure that MCPS maintains high-quality instruction for all our students both this year and next.

If you or your staff have any questions, please contact Mr. Larry A. Bowers, chief operating officer, at 301-279-3626 or Mr. Thomas P. Klausning, director, Department of Management, Budget, and Planning, at 301-279-3547.

Sincerely,

Joshua P. Starr, Ed.D.  
Superintendent of Schools

JPS:LAB:tk

Copy to:

Members of the County Council  
Members of the Board of Education

Mr. Bowers  
Mr. Klausning

Mr. Ikheloa  
Ms. McGuire

Office of the Superintendent of Schools

850 Hungerford Drive, Room 122 ♦ Rockville, Maryland 20850 ♦ 301-279-3381

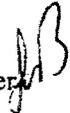
This e-mail message has been approved for distribution by Mr. Larry A. Bowers, chief operating officer. No hard copy will be provided.

Office of the Chief Operating Officer  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

November 24, 2014

MEMORANDUM

To: Executive Staff

From: Larry A. Bowers, Chief Operating Officer 

Subject: Fiscal Year 2015 Operating Budget Expenditure Restrictions

Due to concerns about the funding gap that is projected for our Fiscal Year (FY) 2016 Operating Budget, the superintendent of schools has determined that it is necessary to impose restrictions on expenditures in the current fiscal year. The FY 2015 Operating Budget for Montgomery County Public Schools (MCPS) was funded in part by \$78.7 million in one-time funding from reserves from MCPS health care trust funds and MCPS fund balance. It is necessary to save funding during FY 2015 to help close the funding gap projected for FY 2016. These expenditure restrictions are effective immediately and will remain in effect until further notice. Financial projection reports as of November 30, 2014, must include the effect of the expenditure restrictions, including the impact of expected requests for exceptions.

**Background**

One of the ways that the County Council funded the MCPS FY 2015 Operating Budget was to use one-time funding to cover a portion of the total budget. Instead of funding the local contribution at the Board of Education's requested level for FY 2015, the County Council reduced the local contribution by \$40.5 million, which is the same amount that was cut from Category 12, Fixed Charges. Health care expenditures are instead being funded from available balances in the MCPS Employee Benefits Trust Fund for retired employees and the Other Post-employment Benefits Trust.

At the same time, the County Council funded a portion of the MCPS FY 2015 Operating Budget using \$38.2 million of MCPS fund balance, leaving just \$1.2 million of funding remaining in the fund balance. Based on revenue and expenditure projections as of September 30, 2014, the FY 2015 fund balance at the end of the fiscal year is projected to be \$16.0 million. This amount, combined with the fund balance of \$1.2 million at the end of FY 2015, is well short of the \$38.2 million used by the County Council to fund part of the FY 2015 Operating Budget. Given uncertainties in the severity of the winter season and other factors, the available fund balance may be less than projected. Our Operating Budget cannot continue to be funded from these sources on a recurring basis, thereby contributing to the funding gap projected for FY 2016.

As a result of the fiscal outlook for FY 2016, it is necessary to take steps to generate additional resources that will be needed to fund next year's budget. The restrictions detailed below are effective December 1, 2014. Each office will be expected to make only absolutely necessary expenditures. Even expenditures exempt from the restrictions should not be made unless necessary. Without specific authorization through the freeze process, positions may not be filled, equipment may not be ordered, and no new commitments may be made for non-position salaries, contractual services, or consultants. Existing commitments for non-position expenditures must be reviewed to be sure they are absolutely necessary.

These expenditure restrictions also apply to school-based expenditures, except where exceptions are specifically noted. Enterprise funds are not included in the restrictions. Restrictions on grant expenditures will depend on the terms of specific grants, the details of which are discussed below.

### Positions

1. All position vacancies are frozen. Any position vacancies that have been advertised and any interviews scheduled are exempt.
2. The following positions may be filled with higher level assignments, but any backfilled vacancies are frozen and require an exception to be filled with temporary part-time employees:
  - Principals
  - Assistant principals
  - Building service managers and assistant managers
  - School administrative secretaries
  - School business administrators
  - School security team leaders
3. All vacant classroom and itinerant teacher positions may be filled by long-term substitutes. All non-classroom teacher-level positions are frozen. Schools that have a long-term substitute for a non-classroom teacher position must request that the substitute be able to continue. All substitutes for non-classroom teacher positions who do not have an exemption granted must stop working by December 19, 2014. Exceptions must have prior approval.
4. The following positions may only be filled with temporary part-time employees:
  - Head Start paraeducators
  - Interpreters
  - Lunch hour aides
  - Middle school security assistants
  - Special education paraeducators
  - School bus operators and attendants

5. All other school-based supporting services staff positions, including paraeducator positions, are frozen. Unless specifically approved, existing paraeducators may not be authorized for additional time.
6. Positions in enterprise funds are exempt from the freeze.

#### **Other Salaries**

1. All temporary part-time employment is frozen except those noted below. This includes substitutes for employees on leave, even those previously approved. Substitutes for employees on leave who do not have an exemption granted through the freeze process must stop working on December 19, 2014. The only exceptions to the temporary part-time employment freeze are the following:
  - Schools that already have filled a position vacancy with a temporary employee may continue this employment until the designated end date on MCPS Form 460-2: *Request for Temporary Employment*, unless notified that approval of the temporary employment is canceled. End dates will not be extended. Hours for the employee cannot be increased beyond the current allocation.
  - Clerical/guidance allocations to elementary and high schools are exempt.
  - Student service learning hours allocated to middle schools are exempt.
  - Extracurricular allocations are exempt.
  - Enterprise funds are exempt.
  - Lunch hour aides are exempt.
2. All non-school-based temporary employment is frozen.
3. Overtime—Only emergency overtime is permitted. Except for emergency overtime in the departments of Transportation and Facilities Management, all emergency overtime must be preapproved by the responsible associate superintendent according to existing procedures. Overtime in nonemergency situations will not be approved.

#### **Contractual Services**

1. New Contractual Commitments—No new contractual commitments may be made except for the following: emergency repairs; waste disposal; speech, language, and interpretation services; and the extension of existing maintenance agreements for copiers or computers. This restriction also applies to school-based expenditures. Contractual commitments for the TeamWorks copier maintenance program are exempt.
2. Existing Contractual Commitments—Each office must review contractual service encumbrances to see if they can be canceled. Each office must submit its contractual services spending plan with all commitments noted as part of the monthly financial report submission.

3. Consultants—All commitments for consultant services will require a freeze exception. Services under ongoing consultant contracts must cease after January 1, 2015, unless specifically authorized through the freeze exception process. Offices should submit their plans to use consultants for the rest of the fiscal year by December 10, 2014, in order to ensure continuation of consultants after January 1, 2015.

### **Supplies and Materials**

1. School spending of instructional materials funds can continue for purchasing instructional materials for students, media materials, textbooks, and training materials. Schools should only purchase instructional materials and textbooks that are absolutely necessary. Restrictions on spending in materials accounts include purchasing of food, beverages, and student/staff incentives except where the purchasing of food is part of the curriculum.
2. Building services supplies are exempt.
3. For all non-school-based offices, supplies and materials may only be ordered to permit employees to continue essential duties and if an exception is approved.
4. Materials and supplies for maintenance work, vehicle maintenance, and printing are exempt.
5. All printing orders are frozen. Printing orders must be authorized by a freeze exception before Editorial Graphics and Publishing Services may accept them. All Copy Plus orders from schools will be approved.

### **Other Expenditures**

1. Staff will continue to be reimbursed for local travel. However, local travel should be minimized consistent with required responsibilities.
2. Travel and conference commitments are frozen. Employees must not arrange travel expenditures or make commitments to participate in out-of-state conferences unless the travel has been authorized previously. Travel arrangements made prior to this notification should be canceled, if possible. Arrangements for any other travel will not be honored unless there is an approved exemption. Travel approved by Montgomery County Association of Administrators and Principals as part of the funds included in the contractual agreement are exempt.
3. Expenditures for dues, registrations (unless included in the travel exemption in #2), and subscriptions are frozen.
4. School music repair and school music/choral expense accounts are exempt.

**Furniture and Equipment**

1. All furniture and equipment purchases are frozen unless there is an approved exception.
2. The acquisition of school buses is exempt from this restriction.
3. New lease or master lease commitments require an approved exception. Payments of existing lease or master lease obligations are exempt.

**Grants**

1. Expenditures for nonbudgeted grants (i.e., competitive grants that have no local component) are exempt from expenditure restrictions. These grants must be spent according to the terms of the grant. Project managers should check with their budget specialist to determine if a grant falls within this category.
2. Budgeted grants that have a local component (i.e., grants that include locally-funded expenditures as part of the budgeted program) are subject to expenditure restrictions. These grants also must be expended according to the terms of the grant, but all expenditures not otherwise exempt under the provisions listed above must be scrutinized for opportunities to shift local expenditures to the grant. Grant managers must request exceptions to authorize expenditures in these grants unless otherwise exempt and show why it is impossible to shift locally-funded expenditures to the grant.
3. Expenditures for budgeted grants with a local component must be consistent with approved expenditure plans for FY 2015 showing how they plan to spend out the grant within the fiscal year. Any changes in approved expenditures require a freeze exception.

**Exception Process**

The exception process is as follows:

1. Exceptions to the freeze are permitted **only for emergencies or other absolutely unavoidable expenditures** if authorized by the chief operating officer.
2. Any exceptions must be requested using the standard freeze exception form (Attachment) and submitted to the chief operating officer through the director of the Department of Management, Budget, and Planning from the deputy superintendent of school support and improvement, chief academic officer, or chief operating officer. Other account managers may not request an exception directly.
3. Exception requests must describe why the proposed expenditure is an emergency or absolutely unavoidable, and why the unit cannot realign other funds to meet the emergency.
4. A committee comprising the director of the Department of Management, Budget, and Planning, the chief financial officer, and representatives of the deputy superintendent of

school support and improvement, chief academic officer, and chief operating officer will make a recommendation to the chief operating officer regarding all exception requests. The decision of the chief operating officer will be final.

5. The chief operating officer may announce additional expenditure restrictions. Executive staff should remain alert for these announcements.

Requests for approval of exceptions must be justified according to the following criteria:

1. emergency spending that cannot be avoided without endangering health or safety;
2. expenditures for supplies and materials absolutely necessary for employees to continue assigned duties;
3. unavoidable contractual commitments;
4. expenditures without which essential operations could not continue; or
5. expenditures for which no alternative revenue sources, such as grants, are available

Until exceptions are approved, no restricted expenditures may be made. Thank you for your cooperation. These expenditure restrictions are absolutely essential to maintain high-quality instruction in FY 2016 for all of our students.

If you have any questions, please contact me at 301-279-3626, or Mr. Thomas P. Klausing, director, Department of Management, Budget, and Planning, at 301-279-3547.

LAB:TPK:jp

Attachment

Copy to:

Mrs. Chen  
Mrs. DeGraba  
Mrs. Hurley  
Mr. Klausing  
Mr. Martinez  
Mrs. Cuttitta  
Mr. Koutsos  
Mr. Prouty  
Mr. Ikheloa



### FY 2015 Freeze Exception Request

School Name: \_\_\_\_\_ School No: \_\_\_\_\_ Item Description: \_\_\_\_\_

**DIRECTIONS:** School requests for freeze exceptions may be generated directly by the principal or by the associate superintendent on behalf of the school. All school requests for freeze exceptions must go through the Office of School Support and Improvement. Use a separate form for each request; you may attach additional information on a separate sheet.

ACTION SUMMARY					
Account #	Position/Account Name	FTE	Account Balance	Requested Amount	*Request Criteria #
<b>TOTAL</b>		0.0	\$0.00	\$0.00	

Decision

Freeze Committee Log Number \_\_\_\_\_

Approved \_\_\_\_\_  
Denied \_\_\_\_\_  
Other \_\_\_\_\_

Comments: \_\_\_\_\_

**\*Choose all that apply**

1. Emergency spending that cannot be avoided without endangering health and safety.
2. Expenditures for supplies and materials necessary for employees to continue assigned duties.
3. Unavoidable contractual commitments.
4. Expenditures without which essential operations/programs could not continue.
5. Expenditures for which no alternative revenue sources, such as grants, are available.

**Why is this expenditure/position necessary?**

**If this expenditure/position is denied, what are the consequences?**

**Requested by:** \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_  
*Principal (Name)*
*Principal (Signature)*
*Date*

<b>Recommended:</b> _____ <span style="margin-left: 50px;"><i>Associate Superintendent (Date)</i></span>	<b>Submitted:</b> _____ <span style="margin-left: 50px;"><i>Deputy Superintendent, School Support and Improvement (Date)</i></span>	<b>Approved:</b> _____ <span style="margin-left: 50px;"><i>Chief Operating Officer (Date)</i></span>
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