

ED COMMITTEE #1
September 28, 2015
Worksession

MEMORANDUM

September 24, 2015

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst *Essie McGuire*

SUBJECT: **Worksession – Resolution to Approve Categorical Transfers of \$3,900,000 for the Montgomery County Public Schools FY15 Operating Budget, and MCPS FY15 Year-End Financial Report**

Today the Education Committee will discuss the FY15 Year-end Financial Report of the Montgomery County Public Schools (MCPS). The Committee will also consider a resolution to approve categorical transfers of \$3,900,000 for the MCPS FY15 Operating Budget. Tom Klausung, Director, Office of Management, Budget, and Planning, MCPS, will participate in today's discussion.

The Board of Education requested the categorical transfers on July 28, 2015. A draft resolution to approve the requested transfers is attached on circles 1-2. The Council is tentatively scheduled to introduce this transfer resolution on September 29.

The FY15 Year-end Financial Report was presented to the Board of Education on July 28 (attached at circles 3-8). **The report shows that MCPS ended FY15 with a year-end surplus of \$35.9 million.** This total consists of \$34.4 million in projected expenditure surplus and \$1.5 million in projected revenue surplus.

The Committee last reviewed the MCPS financial report in April, which at that time reflected financial conditions through January 31. The final year-end total surplus is \$2.1 million higher than was projected at that time.

This year-end report shows that as of the end of FY15, MCPS has a total fund balance of \$37.0 million, including unappropriated fund balance from prior years. The Council appropriated \$33.2 million of MCPS fund balance as a resource for the FY16 operating budget. This action leaves an unappropriated balance of \$3.8 million going forward.

The table below shows the year-end balance for each category as a percent of the total category appropriation.

	FY15 App Budget	FY15 Year-end Balance	% of App Cat Budget
Cat 1, Administration	43,856,066	1,945,325	4.4%
Cat 2, Mid-level Administration	143,088,984	4,579,349	3.2%
Cat 3, Instructional Salaries	916,514,351	12,443,869	1.4%
Cat 4, Textbooks and Instr Supplies	23,493,620	6,206,876	26.4%
Cat 5, Other Instr Supplies	12,422,284	1,574,910	12.7%
Cat 6, Special Education	316,243,063	6,643,698	2.1%
Cat 7, Student Personnel Svcs	11,834,726	291,483	2.5%
Cat 8, Health Svcs	3,590	1,996	55.6%
Cat 9, Student Transportation	104,486,639	2,222,061	2.1%
Cat 10, Operation of Plant and Equip	133,897,798	1,374,304	1.0%
Cat 11, Maintenance of Plant and Equip	34,317,401	770,193	2.2%
Cat 12, Fixed Charges	514,610,561	-3,712,748	-0.7%

Every category ended the year in surplus with the exception of Category 12, Fixed Charges. These surpluses are primarily the result of the expenditure restrictions and other savings measures that the school system implemented in November 2014 in an effort to generate additional resources to fund the FY16 Operating Budget. Given the overall fiscal constraints continuing to face the County, in July of this year the Council approved a savings plan for FY16 that had an initial savings target for MCPS of \$10 million. The Committee will review the first monthly financial report of FY16 in November, and will receive additional information at that time about the savings measures that MCPS will implement in this fiscal year.

MCPS anticipated the deficit in Category 12, Fixed Charges, earlier this year and the Committee discussed this issue as part of its FY16 budget discussions this spring. At that time, MCPS projected an FY15 deficit in the Employee Benefits Fund of \$3.4 million, of which \$1.2 million was associated with claims for active employees and \$2.2 million was associated with claims for retired employees. On March 30, the Board of Education requested an FY15 supplemental appropriation of \$3.5 million in new County dollars to pay health benefit expenditures in FY15, offsetting the projected deficit and leaving a small reserve balance of \$100,000.

MCPS identified an increase in health claims, including a number of particularly large claims, as the primary reason for this projected deficit. MCPS reported experiencing increased health claims costs since last year, when the actual FY14 year-end fund balance ended lower than had been projected during FY15 budget discussions. Council staff understands that County Government has experienced similar increases in health claims. In addition, the Council's FY15 action to draw down the FY14 fund balance further than the Board's budget had anticipated left a lower balance in the fund to cover these unanticipated cost increases.

The Education Committee's recommendation in April was to not move forward with a supplemental appropriation and instead to recognize the Board's ability to allocate remaining FY15 fund balance to the Employee Benefit Funds, through categorical transfers if necessary. **Council staff recommends approval of the requested categorical transfers for the FY15 operating budget.**

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Categorical Transfer, FY15 Operating Budget
Montgomery County Public Schools, \$3,900,000

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 Council received the Board of Education's action of July 27, 2015, requesting a transfer among state categories as follows:

<u>Category</u>	<u>Description</u>	<u>To</u>	<u>From</u>
3	Instructional Salaries		\$3,900,000
12	Fixed Charges	\$3,900,000	
	Total	\$3,900,000	\$3,900,000

3. The Board of Education has requested authorization to make an FY15 categorical transfer to align budgeted appropriations with actual expenditures. This request would offset deficits in Category 12, Fixed Charges, by transferring surpluses from Category 3, Instructional Salaries.
4. The deficits in Category 12, Fixed Charges, primarily related to a higher than anticipated claims experience for health benefits, which led to a projected deficit in the MCPS Employees Group Insurance Fund.

Action

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

The FY15 Operating Budget of the Montgomery County Public Schools is hereby amended, and a transfer of appropriation is approved as follows:

<u>Category</u>	<u>Description</u>	<u>To</u>	<u>From</u>
3	Instructional Salaries		\$3,900,000
12	Fixed Charges	\$3,900,000	
	Total	\$3,900,000	\$3,900,000

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

ACTION

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

July 27, 2015

MEMORANDUM

To: Members of the Board of Education

From: Larry A. Bowers, Interim Superintendent of Schools

Subject: Fiscal Year 2015 Operating Budget End-of-Year Categorical Transfer

Montgomery County Public Schools (MCPS) is required to request transfers among state categories to align the budgeted appropriation with actual expenditures. Categorical transfers are subject to approval by the County Council. Fiscal Year (FY) 2015 categorical transfers total \$3.9 million, which is 0.2 percent of the total operating budget.

The current projection is that the FY 2015 MCPS Operating Budget ended the year with an expenditure surplus of \$34,354,965. This amount is preliminary and not final until the books are closed for the fiscal year. At this time, there are surpluses in Category 1, Administration; Category 2, Mid-level Administration; Category 3, Instructional Salaries; Category 4, Textbooks and Instructional Supplies; Category 5, Other Instructional Costs; Category 6, Special Education; Category 7, Student Personnel Services; Category 8, Health Services; Category 9, Student Transportation; Category 10, Operation of Plant and Equipment; Category 11, Maintenance of Plant; and Category 14, Community Services. Category 12, Fixed Charges, ended the year with a deficit. Revenues had a FY 2015 end-of-year surplus of \$1,501,702, which is \$298 less than the estimate in the April 30, 2015, financial report to the Board of Education.

On November 24, 2014, due to concerns about the funding shortfall that was projected for the MCPS FY 2016 Operating Budget, the superintendent of schools determined that it was necessary to impose restrictions on expenditures for the remainder of FY 2015. This step was necessary to generate additional resources that would be needed to fund the FY 2016 Operating Budget. The restrictions were effective on December 1, 2014, and directed that only absolutely necessary expenditures were permitted. The restrictions applied to both central services and school-based expenditures, except where exceptions were identified. At the time these restrictions were put into place, MCPS had estimated an end of FY 2015 MCPS fund balance of \$16.0 million.

As a result of cumulative savings from prior years, and after the County Council appropriated \$38,172,451 of the MCPS fund balance to fund the FY 2015 Operating Budget, the FY 2015 beginning MCPS fund balance as of July 1, 2014, was \$1,182,633. That amount, combined with the current estimated end-of-year expenditure surplus of \$34,354,965, and revenue surplus of \$1,501,702, reflects that the FY 2015 end-of-year MCPS fund balance is \$37,039,300. The actual amount will be determined in mid-August. On May 21, 2015, the County Council approved the use of \$33,162,633 from the MCPS fund balance to fund the FY 2016 MCPS Operating Budget.

During the past fiscal year, staff closely monitored revenues and expenditures. Coordinated by the Office of the Chief Operating Officer, monitoring was led by the Department of Management, Budget, and Planning and the Department of Financial Services. This financial monitoring process is extremely careful, comprehensive, and detailed. Primary and secondary account managers reviewed each of their accounts on a monthly basis and reported expenditure projections for the remainder of the fiscal year. Department of Management, Budget, and Planning staff reviewed and analyzed these projections using quantitative models, as well as knowledge of previous expenditure patterns and changing circumstances. The MCPS Financial Management System, a comprehensive financial system integrated with the Human Resources Information System, provided data that enabled staff to monitor and control expenditures.

The Board of Education received detailed financial status reports throughout the past year. Each month, beginning in November 2014, the Board discussed the financial status report at its public meetings. These reports were transmitted to the county executive, the county's Office of Management and Budget, and the County Council. Final FY 2015 expenditures are consistent with the trends indicated in the monthly reports. The following summary presents the results for expenditures and how the end-of-year results differ from the appropriation.

EXPENDITURES

The current projection for the FY 2015 expenditure surplus is \$34,354,965, 1.5 percent of budgeted expenditures. An explanation of the results by state category follows.

Category 1, Administration, reflected a surplus of \$1,945,325. There is no significant change from the amount reported to the Board in the April 30, 2015, financial report. There was a position salary surplus of \$1,872,470 and a surplus of \$368,554 for temporary part-time salaries. This was offset by a deficit for contractual services of \$335,264, approximately the same as was projected in the April financial report, and was due to the greater than budgeted costs for legal services and the hiring of outside contractors for technology services as a result of vacant positions. There was a net surplus of \$39,565 for supplies and materials, equipment, and local travel mileage reimbursement. Savings in Category 1 were 4.4 percent of budgeted expenditures.

Category 2, Mid-level Administration, reflected a surplus of \$4,579,349. This is an increase of \$579,349 from the amount reported to the Board in the April 30, 2015, financial report.

Most of the surplus (\$3,393,108) was a result of greater than budgeted lapse and turnover savings due to hiring restrictions put in effect for FY 2015. There was a net surplus of \$1,186,241 for temporary part-time salaries, contractual services, supplies and materials, and local travel mileage reimbursement due to the spending restrictions in effect for FY 2015. Savings in Category 2 were 3.3 percent of budgeted expenditures.

Category 3, Instructional Salaries, reflected a surplus of \$12,443,869, which is \$556,131 less than the projected surplus reported in the April 30, 2015, financial report. Most of the surplus (\$6,682,894) was related to position salaries, which is \$917,106 less than the projected surplus in the April 30 report. In addition, there is a surplus of \$5,760,975 that is related to temporary part-time salaries, which is \$360,975 more than the April 30 projected amount. The surplus change for temporary part-time salaries was primarily a result of less than anticipated substitute usage, stipend pay, and workers' compensation payments. Savings in Category 3 were 1.4 percent of budgeted expenditures.

Category 4, Textbooks and Instructional Supplies, reflected a surplus of \$6,206,876. This is \$206,876 more than the amount that was reported to the Board in the April 30, 2014, financial report. The difference was a result of additional savings for textbooks, instructional supplies and materials, and media materials. Savings in Category 4 were 21.7 percent of budgeted expenditures.

Category 5, Other Instructional Costs, reflected a surplus \$1,574,910, which was \$574,910 more than the amount projected in the April 30, 2015, financial report. This change is the result of several factors including additional surpluses of \$418,641 in contractual services; \$177,301 related to expenditures for tuition paid for Maryland Juvenile Services; and \$52,853 for out-of- area travel and dues, registration and fees. In addition, the surplus projected for the purchase of furniture and equipment decreased by \$73,885. Savings in Category 5 were 14.6 percent of budgeted expenditures.

Category 6, Special Education, reflected a surplus of \$6,643,698, which was \$1,243,698 more than the surplus reported in the April 30, 2015, financial report. Most of the surplus (\$4,689,289) was related to position salaries, which is \$789,289 more than the projected surplus in the April 30 report. Actual expenses were lower than projected for long-term substitutes, long-term leave, and overtime resulting from services provided during the additional day added at the end of the school calendar to make up for school closures. In addition, the surplus change of \$240,823 for temporary part-time salaries was primarily a result of less than anticipated substitute usage, stipend pay, and workers' compensation payments. There was a deficit of \$25,585 in contractual services and a reduced surplus of \$41,016 in this category for local travel mileage reimbursement, which was offset by a surplus change of \$87,536 in textbooks and instructional materials from unspent school allocations, equipment, and other expenditures.

The surplus of \$1,042,651 for tuition for students with disabilities in nonpublic schools was \$192,651 higher than the \$850,000 surplus projected in the April 30, 2015, financial report. The overall surplus was mainly due to a lower than anticipated number of students enrolled

in school-age day programs during the year. The surplus in Category 6 was 2.3 percent of budgeted expenditures.

Category 7, Student Personnel Services, reflected a surplus of \$291,483. There is no significant change from the amount reported to the Board in the April 30, 2015, financial report. The net surplus consisted of a surplus of \$182,183 in position salaries for lapse and turnover savings due to spending restrictions in place for FY 2015. In addition, there was a surplus of \$109,300 for temporary part-time salaries, contractual services, supplies and materials, and local travel mileage reimbursement due to the spending restrictions in place for FY 2015. Savings in Category 7 were 2.6 percent of budgeted expenditures.

Category 8, Health Services, reflected a surplus of \$1,996 due to slightly lower than anticipated program needs.

Category 9, Student Transportation, reflected a surplus of \$2,222,061. This is \$822,061 more than the amount projected in the April 30, 2015, financial report. There was a position salary surplus of \$1,722,290 related to approximately 50 vacant combined Full-time Equivalent (FTE) bus operator and bus route supervisor positions. There was a deficit of \$3,355,665 for temporary part-time school bus operator salaries, including costs for overtime incurred during the year. The combined actual deficit for position and non-position salaries was \$33,375 less than what was projected in the April 30, 2015, financial report. There was a net surplus of \$3,398,655 for contractual services, bus fuel, bus parts, and supplies. This was an increase in savings of \$456,771 from the projected amount of \$2,900,000 in the April 30, 2015, financial report. The majority of the surplus is related to savings in bus fuel of \$2,256,354, which was \$356,354 higher than the projected amount of \$1,900,000 in the April 30, 2015, financial report. Fuel savings were due to a lower average cost per gallon (CPG) of \$2.53 for the fiscal year, approximately \$1.02 less than the budgeted amount of \$3.55 CPG. There also was a surplus of \$265,761 for other expenditures primarily related to after-school activities, which was not previously projected in the April 30, 2015, financial report. In addition there was a surplus of \$191,020 for equipment purchases, which was \$91,020 higher than the projected surplus of \$100,000 reported as of April 30. The surplus in Category 9 was 2.2 percent of budgeted expenditures.

Category 10, Operation of Plant and Equipment, reflected an end-of-year surplus of \$1,374,304, which was \$25,696 less than the \$1,400,000 projected in the April 30, 2015, financial report. There was a position salary surplus of \$2,634,809 related to approximately 106 vacant FTE positions. The position salary surplus was partially offset by a deficit of \$828,627 in temporary part-time salaries. The deficit in part-time salaries was attributable to the use of building services substitutes to fill vacancies, overtime expenses that were incurred during the days that schools were closed due to weather emergencies, and the costs associated with the one additional day added to the school calendar to make up for school closures.

There was a net surplus of \$363,122 in contractual services, supplies and materials, and equipment. The majority of the savings is related to building rental costs, and custodial and recycling supplies. The actual expenditure deficit for utilities was \$795,000, which was unchanged from the deficit projected in the April 30, 2015, financial report. The overall deficit was a result of cold weather throughout the winter months that resulted in an increase in the consumption of electricity, natural gas, and fuel oil. In addition, rates increased due to the imbalance between supply and demand. While the price for the majority of MCPS' anticipated electricity and natural gas requirements was fixed through contracts, a portion is purchased at market rates. The surplus in Category 9 was 1.1 percent of budgeted expenditures.

Category 11, Maintenance of Plant, reflected an end-of-year surplus of \$770,193. In the April 30, 2015, financial report, the category was projected to end the year with a surplus of \$500,000. There was an actual position and temporary part-time salary balance of \$1,582,269, which was \$232,269 more than the \$1,350,000 surplus projected in the April 30, 2015, financial report. Actual end-of-year expenditures for contractual equipment repairs resulted in a deficit of \$343,800. This is \$56,200 less than the \$400,000 deficit projected in the April 30, 2015, financial report. The actual amount spent for maintenance and grounds care supplies and vehicle operation costs resulted in a deficit of \$676,679. This was \$76,679 more than the deficit of \$600,000, which was previously projected. The deficits in supplies and vehicle operation costs were primarily a result of snow removal activities that occurred during the winter months. There was a surplus of \$208,403 for equipment, which was \$58,403 more than in the April 30, 2015, financial report. The surplus in Category 11 was 2.3 percent of budgeted expenditures.

Category 12, Fixed Charges, reflected a year-end deficit of \$3,712,748, which is \$187,252 less than the April 30, 2015, financial report. 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 Employees Group Insurance Fund to pay for current retiree health costs. In addition, \$13.3 million was cut from the budget with the intention of reducing the Employees Group Insurance Fund balance to a five percent reserve level beginning in FY 2015. In order to cover the anticipated deficit in the MCPS Employees Group Insurance Fund in FY 2015 due to higher claims experience, a supplemental appropriation request for \$3.5 million was submitted by the Board to the County Council; however it was not approved. To partially offset the \$4.5 million deficit in the Fund, there is a combined surplus of \$787,252 in worker's compensation and social security contributions, bringing the overall Category 12 deficit to \$3,712,748.

Category 14, Community Services, ended the year with a small surplus of \$13,648.

I recommend the Board approves the following resolution regarding categorical transfers:

WHEREAS, Category 12, Fixed Charges, reflected a deficit as of June 30, 2015, primarily related to higher than anticipated health benefits expenditures; and

WHEREAS, The required funds are available for transfer from Category 3, Instructional Salaries; now therefore be it

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

<u>Category</u>	<u>Description</u>	<u>To</u>	<u>From</u>
3	Instructional Salaries		\$3,900,000
12	Fixed Charges	\$3,900,000	_____
Total		\$3,900,000	\$3,900,000

and be it further

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

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

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