

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

July 28, 2008

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: FY 2008 Operating Budget Categorical Transfer

At the end of each fiscal year, the 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 2008, these transfers total \$12,000,000, approximately 0.6 percent of the total operating budget.

Overall, the MCPS Operating Budget ended FY 2008 with an expenditure surplus of \$14,500,000. Additionally, revenue was \$3,400,000 greater than budgeted, so that the total savings in local contribution was \$17,900,000. The County Council assumed \$17.9 million of savings from FY 2008 to fund the FY 2009 Operating Budget.

The FY 2008 expenditure surplus was due in part to comprehensive expenditure restrictions and a hiring freeze imposed on November 24, 2007. Offsetting the savings from expenditure restrictions were deficits in Special Education (Category 6), Pupil Personnel Services (Category 7), Student Transportation (Category 9), and Fixed Charges (Category 12) totaling \$11.4 million. In order to achieve the required expenditure savings of \$14.5 million, a total of \$25.9 million in savings was made in other state categories. Revenue surplus resulted from additional FY 2007 fund balance and higher than anticipated FY 2008 revenue for tuition due to more out-of-county students, federal impact aid, state reimbursement for students in nonpublic placements, and miscellaneous revenue.

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 the Chief Technology Officer and 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 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, improved the ability to monitor and control expenditures

and to successfully implement expenditure restrictions. Additional tools still being developed within the FMS system 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 2008 expenditures are in line with the trends indicated in the monthly reports. The following is a summary of the results in each of the categories in which actual expenditures through June 30, 2008, differed from the appropriation:

Category 1, Administration, reflected a surplus of \$2,678,000. The surplus is a result of greater than budgeted lapse and turnover savings (\$1,700,000) and other savings as a result of the comprehensive expenditure restrictions (\$900,000). These savings are 6.0 percent of budgeted expenditures.

Category 2, Mid-level Administration, reflected a surplus of \$3,280,000. The surplus is a result of greater than budgeted lapse and turnover savings (\$2,000,000), reductions in the acquisition of instructional materials (\$225,000) and other savings as a result of the comprehensive expenditure restrictions (\$1,000,000). Some of the savings resulted from using temporary part-time employees to fill some vacancies. These savings are 2.5 percent of budgeted expenditures.

Category 3, Instructional Salaries, reflected a surplus of \$10,754,000. The projected surplus is primarily a result of greater than anticipated lapse savings (\$5,200,000). As a result, approximately 80 teacher and supporting services positions were held in reserve rather than being allocated to schools. Teacher vacancies filled with long-term substitutes have resulted in savings in position accounts. There are savings due to lower than projected usage of extracurricular activities stipends (\$900,000), substitutes (\$1,100,000), and stipends for supervisors of student teachers (\$200,000). Additional savings are projected because of training activities limited by the comprehensive expenditure restrictions (\$2,000,000) and reduced usage of staff development substitutes (\$900,000). Lower than projected usage of long-term leave resulted in additional savings (\$700,000). These savings were partially offset by higher than projected payout of sick and annual leave for terminated employees in this category (\$300,000).

Category 4, Textbooks and Instructional Supplies, reflected a surplus of \$6,607,000. The surplus is a result of postponing acquisition of textbooks and instructional materials until FY 2009 (\$4,400,000); lower spending for textbooks, media center supplies, and instructional materials in accounts not allocated to schools (\$2,000,000); additional savings in instructional materials in the Office of the Chief Technology Officer (\$100,000); and lower than projected expenditures for training materials purchased by the Office of Organizational Development (\$100,000).

Category 5, Other Instructional Costs, reflected a surplus of \$1,578,000. The surplus is a result of savings as a result of the comprehensive expenditure restrictions. Savings included lower than anticipated school copier contractual services expenditures (\$200,000), staff development

expenditures (\$800,000), printing services (\$300,000), and school furniture and equipment (\$300,000).

Savings in regular instruction program costs in Categories 3, 4, and 5 are 2.2 percent of budgeted expenditures.

Category 6, Special Education, reflected a deficit of \$3,961,000. The deficit is due primarily to a higher than anticipated cost for special education students referred to private placements. This is the result of increases for tuition rates and supplementary services (\$3,500,000). There is also a deficit of \$1,000,000 due to lower than projected revenue for Medicaid that resulted from changes in reimbursement rates imposed by the federal government. The shortfall in Medicaid revenue increased local funding for special education expenditures. This deficit is partially offset by a net surplus in position costs (\$1,400,000) due to higher than anticipated lapse and turnover. There also were higher than budgeted costs for part-time salaries and contractual expenses, partially offset by a net surplus in other accounts resulting from the comprehensive expenditure restrictions (\$900,000).

Category 7, Student Personnel Services, reflected a deficit of \$108,000. The deficit is the result of lower than anticipated salary lapse and turnover.

Category 8, Health Services, reflected a surplus of \$14,000 due to lower than anticipated program needs.

Category 9, Student Transportation, reflected a deficit of \$4,430,000. The projected deficit is predominately the result of actual diesel fuel costs (\$3,400,000). Prices paid by MCPS for diesel fuel have been as high as \$4.40 per gallon. Higher fuel costs reflect the nationwide increase in the cost of gasoline and other petroleum products. Fuel costs have averaged approximately \$3.28 per gallon compared to the budgeted amount of \$2.50 per gallon. The deficit also resulted from higher than budgeted personnel costs, including lower than anticipated salary lapse (\$1,000,000).

Category 10, Operation of Plant and Equipment, reflected a surplus of \$547,000. The surplus resulted from higher than anticipated lapse and turnover savings (\$200,000) and savings in expenditures for electricity as a result of new bidding procedures (\$350,000). Savings in Category 10 are 0.5 percent of the budgeted expenditures.

Category 11, Maintenance of Plant, reflected a surplus of \$904,000. The surplus resulted from higher than budgeted lapse and turnover savings (\$700,000) and other savings resulting from the comprehensive expenditure restrictions (\$200,000). Savings in Category 11 are 2.7 percent of budgeted expenditures.

Category 12, Fixed Charges, reflected a deficit of \$2,918,000. Actual costs for the Employee Benefit Plan (EBP) were at budgeted levels. However, increased cost projections make it prudent to increase the contribution to the EBP reserve, as recommended by the County Council benefits

consultant, by \$2,000,000. 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 (\$1,000,000), which was partially offset by a surplus resulting from lower than anticipated social security payments and other items included in Category 12 (\$100,000).

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

WHEREAS, Category 6, Special Education, reflected a deficit as of June 30, 2008, as a result of higher than expected tuition costs for nonpublic placement of special education students and lower than projected revenue for Medicaid; and

WHEREAS, Category 7, Student Personnel Services, reflected a deficit as of June 30, 2008, as a result of lower than expected lapse and turnover savings; and

WHEREAS, Category 9, Student Transportation, reflected a deficit as of June 30, 2008, as a result of higher than expected costs for bus fuel and personnel costs; and

WHEREAS, Category 12, Fixed Charges, reflected a deficit as of June 30, 2008, as a result of higher than anticipated costs in 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; Category 3, Instructional Salaries; and Category 4, Textbooks and Instructional Supplies; 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		\$ 2,000,000
2	Mid-level Administration		3,000,000
3	Instructional Salaries		4,000,000
4	Textbooks and Instructional Supplies		<u>3,000,000</u>
6	Special Education	\$4,100,000	
7	Student Personnel Services	200,000	
9	Student Transportation	4,600,000	
12	Fixed Charges	<u>3,100,000</u>	
	Total	<u>\$12,000,000</u>	<u>\$12,000,000</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 transfer to the County Council.

JDW:LAB:MCS:jp