



April 28, 2022

MEMORANDUM

To: Members of the Board of Education

From: Michael J. Martirano, Ed.D.
Superintendent

Subject: Budget Adoption Scenarios for FY 2023 Operating Budget

The purpose of this memorandum is to follow up to the memorandum dated April 22, 2022 regarding next steps in the Board's deliberation of the FY 2023 Operating Budget.

The preceding memo provided an overview of the revenues as well as analysis of the expenditure adjustments that will be needed to adopt a balanced budget. Division chiefs and budget office staff have been reviewing the expenditure changes in the Board's Requested FY 2023 Operating Budget to recommend adjustments to these expenditures. This information is provided to help guide the Board's discussions with the Council as we look ahead to budget adoption at the end of May. I am providing two budget balancing scenarios for the Board detailing the budget priorities that could be funded within each scenario. These scenarios have been developed based on the priorities noted below:

- Maintain contractual and non-negotiable commitments
- Ensure Blueprint funding is spent on appropriate expenditures and not supplanted
- Retain as much funding as possible for special education, student well-being and mental health supports, and student health services, including the fixed charges associated with these positions
- Retain a level of funding increase for transportation contract costs to address the continuing driver shortage and minimize disruption of student transportation services
- Fund health care and pension costs in Category 12 for all existing and new positions
- Consider use of fund balance in accordance with Board Policy 4070 retaining an unassigned fund balance equal 1 percent of total expenditures
- Use one-time funding appropriated by the County for designated expenditures

Budget Balancing Context

The County Executive's proposed budget provides a county funding level increase of \$40 million in recurring and \$5.4 million increase in non-recurring. Total proposed county funding is \$45.4 million more than the FY 2022 approved budget. Combined with the increases in state funding, other revenue changes, and use of fund balance, the County Executive's proposed budget for HCPSS totals \$1.025 billion. This funding level is \$71.2 million less than the funding

level requested by the Board, \$1.097 billion. To balance the budget this \$71.2 million gap will need to be closed by expenditure reductions, revenue increases, and/or a combination of both.

Please note that the revenue and expenditure changes shown in this memo are preliminary and are provided to assist the Board in developing a balanced budget strategy as you begin conversations with the County Council regarding any additional funding. Once a prioritized path of budget reductions is established by the Board, staff will develop the necessary score sheets for final budget adoption. Additional considerations included:

State Category Allocation: It is important to note that while the County Executive's proposed budget included state category funding levels, those funding levels are placeholders as confirmed by the County's Budget Director. There are limits to using the line-item funded amounts referenced by the County Executive for items such as Special Education, because there are centrally allocated and calculated costs that fall into state category 12, fixed charges, which could not be factored in by the county. The two scenarios take into consideration the total costs (direct and indirect) for each of the budget priorities shown and include certain fixed charge cost estimates. State category 12 fixed charges will be recalculated to support the programmatic priorities determined by the Board for the final budget adoption.

Use of Fund Balance: Both scenarios assume the use of an additional \$10.75 million of the HCPSS unassigned fund balance. This is based on our cost to complete estimates which project that less fund balance will need to be used in FY 2022 due to expenditure savings. Using an additional \$10.75 million of unassigned fund balance retains an amount of unassigned fund balance equal to 1 percent of the total budget, in accordance with Board Policy 4070.

Non-Recurring or One-Time Expenditures: As noted previously, non-recurring funds do not have a discretionary use and must be used for the list of items that were submitted to MSDE as one-time expenditures. The County Executive proposed budget includes \$17.9 million in non-recurring funding for FY 2023. This is a \$5.4 million increase from the amount of non-recurring included in last year's budget. However, the funding can only be used for the specific items that make up the \$17.9 million list, which are mostly technology costs, HEPA filters, and HS #13 start-up costs.

Blueprint Estimates: Based on available funding for Blueprint-related expenditures, staff have reviewed the Blueprint requirements to adjust expenditure estimates and those estimates have been factored into the development of these scenarios. In both scenarios, we will be able to use the funding allocated for Blueprint-related priorities and report out to the state on the use of those funds. We do have concerns about being positioned to implement Blueprint requirements in future years without a solid foundation. However, due to limited funding, we are unable to build that foundation in this coming year as originally envisioned.

Special Education Funding: We have received questions regarding the full funding of special education and the county's press release stating that special education is fully funded. It is important to point out that what was being referenced was the \$7.3 million new funding for 151 positions and other costs included in the BOE Requested Budget. Increases related to fixed charges were not factored into this amount such as new health insurance and pension costs. In addition, the placeholder used by the County is about \$9.0 million less than the Board's request. As we know, these amounts are placeholders and the necessary funding level for Special Education will be calculated based on Board funding priorities.

Scenario 1

Scenario 1 provides an option to close the \$71.2 million funding gap with a combination of increased use of unassigned fund balance and expenditure reductions. Specifically, it applies an additional use of unassigned fund balance in the amount of \$10,750,000. With this added source of funding, the budget gap is lowered to \$60.45 million. Scenario 1 provides options to eliminate this gap by reducing requested expenditure increases.

The expenditure reductions have been grouped by the high-level budget priorities outlined in the BOE Requested Budget. We have identified potential reductions in each of these areas. The summary of the amounts reduced in each of these areas is provided below. In a separate attachment, additional details are provided.

SUMMARY BUDGET SCENARIO 1

Budget Priority Area	Board Request FTE	Board Request Funding	FTE Reductions	Budget Reductions	Remaining Amount Funded	Remaining FTE Funded
Implementing Blueprint for Maryland's Future	199.2	36,049,934	(87.4)	(10,730,453)	25,319,481	111.80
Maintaining and Sustaining Service Levels	540.4	101,228,304	(446.1)	(49,595,842)	51,632,462	94.30
Opening High School #13	14.0	2,049,283	-	(129,488)	1,919,795	14.00
Total Board Requested Budget Changes	753.6	139,327,521	(533.5)	(60,455,782)	78,871,739	220.10

Under Scenario 1, the BOE requested budget growth would be reduced by \$60.45 million decreasing from \$139.32 million to \$78.87 million. The number of new positions requested would decrease by 533.5 from 753.6 originally requested down to 220.10.

Scenario 2

Scenario 2 provides an option to close the \$71.2 million funding gap with a combination of increased use of unassigned fund balance, expenditure reductions, and increased recurring revenue from the county. Specifically, it applies the same amount of additional use of unassigned fund balance \$10,750,000. It also includes an additional amount of recurring funding from the county in the amount of \$14.5 million, which would increase total recurring funding from county to \$54.5 million, including non-recurring the total growth would equal \$59.9 million. The additional \$14.5 million was determined based on HCPSS receiving an amount of new funding in FY 2023 sufficient to maintain the county’s proportional general fund investment share at 51 percent, the same proportion HCPSS was of total county general fund expenditures in FY 2022.

With these two added sources of funding, the budget gap is lowered to just under \$46.0 million. Same as Scenario 1, the expenditure reductions have been grouped by the high-level budget priorities outlined in the BOE Requested Budget. These are: Implementing the Blueprint for Maryland’s Future, Maintaining Existing Service Levels, and Opening High School #13. Staff have identified potential reductions in each of the major priority areas. The summary of the amounts reduced in each of these areas is provided below. In Attachment 1, the specific impacts to each of the specific budget priorities that make up each grouping are provided.

SUMMARY BUDGET SCENARIO 2

Budget Priority Area	Board Request FTE	Board Request Funding	FTE Reductions	Budget Reductions	Remaining Amount Funded	Remaining FTE Funded
Implementing Blueprint for Maryland's Future	199.2	36,049,934	(87.4)	(10,730,453)	25,319,481	111.80
Maintaining and Sustaining Service Levels	540.4	101,228,304	(268.2)	(35,095,841)	66,132,463	272.20
Opening High School #13	14.0	2,049,283	-	(129,488)	1,919,795	14.00
Total Board Requested Budget Changes	753.6	139,327,521	(355.6)	(45,955,782)	93,371,739	398.00

Under Scenario 2, the BOE requested budget growth would be reduced by \$45.95 million decreasing from \$139.32 million to \$93.37 million. The number of new positions requested would decrease by 355.6 from 753.6 originally requested down to 398.00.

Summary

The budget reductions included in each of these scenarios required difficult decisions about prioritizing the funding increases requested, recognizing that there will not likely be enough funding to meet the needs of all priorities. Each scenario preserves increases in funding for core priorities and ensuring costs for negotiated labor cost changes and other compensation increases are funded at the Board requested level. Special Education is fully funded in scenario 2 whereas in scenario 1, more than 50 percent of the Board requested funding has been included.

Both scenarios fully fund actuarial health insurance costs, mandated increases in teacher pension cost increases, and provide funding to provide health insurance for new positions added to the budget. More specifics on individual budget priorities are detailed in the Attachment 1.A summary of the HCPSS General Fund Budget is provided in Attachment 2. This summary shows the BOE Requested Budget, Scenario 1, Scenario 2, and the County Executive Proposed budget.

Staff from all Divisions will be available during the April 28, 2022 work session to respond to questions the Board may have on the service impacts of these scenarios.

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Board of Education Office

Attachment (2)

Attachment 1- Detailed Summary of Budget Reductions

Summary of FY 2023 BOE Requested Budget Changes

Budget Priorities	FTE	Total Cost Including Benefits
IMPLEMENTING BLUEPRINT FOR MARYLAND'S FUTURE	199.2	36,049,934
Career Ladder Compensation Increases for Teachers	-	17,903,534
Early Childhood Education- Full Day Prekindergarten	143.2	7,901,785
College and Career Readiness (CCR) and Career and Technical Education (CTE)	40.0	5,018,439
Health Benefit Costs for Blueprint Positions	-	2,040,000
Behavioral and Health Services	-	815,049
Career Ladder Implementation and Administration	7.0	807,763
Minimum School Funding	2.0	725,640
Governance, Accountability, Reporting, and Coordination	6.0	692,000
Community Schools	1.0	145,724
MAINTAINING AND SUSTAINING SERVICE LEVELS	540.4	101,228,304
Sustaining Technology Infrastructure and Service Levels (Students and Staff)	15.0	27,010,166
Commitments to Employee Compensation	-	26,767,829
School Start Time Changes and Student Transportation Services	10.0	9,805,091
Expansion of Digital Education Center- Grades K to 12	124.0	9,389,834
Funding Commitments for Special Education Service Levels	151.0	8,172,049
Meeting Financial Commitments for Pension Rate Change	-	5,390,124
Service Level Needs - Student Educational Support, Student Supports, and Behavioral Support	44.2	5,349,750
Decrease Class Size Ratios by 1	76.8	5,410,299
Maintaining Environmental Health, Facilities, and Clean Schools	42.0	4,853,468
Increase funding for utilities, water/sewage maintenance fee	-	2,354,449
Other Obligations and Commitments	4.0	2,576,679
Expanded Curriculum for Synchronous Learning	28.0	2,239,164
Advancing Critical Support for Student Health Services	21.0	1,742,077
Meeting Financial Commitments to Health and Workers Comp Insurance	-	1,476,111
Instructional Textbooks, Supplies, Materials, and Other Supports	-	1,406,065
Sustaining Organizational Capacity	8.0	1,116,161
Eliminate Sprinkling	13.4	959,975
Student Athletics	1.0	480,617
Service Level Support for Board of Education Meetings	2.0	254,771
Year-over-Year budgeted salary cost adjustment	-	(5,049,220)
Increased turnover savings (updated methodology) - Existing Positions	-	(4,696,440)
Increased turnover savings (updated methodology) - New Positions	-	(5,780,715)
OPENING HIGH SCHOOL #13	14.0	2,049,283
Initial Staffing and Opening Costs	14.0	2,049,283
TOTAL BOARD REQUESTED BUDGET CHANGES	753.6	139,327,521

Budget Reductions Scenario 1			
FTE Reductions	Total Cost Reductions Including Benefits	Balance of Priorities Funded	Positions Funded
(87.4)	(10,730,453)	25,319,481	111.80
-	(2,050,018)	15,853,516	-
(63.4)	(3,333,677)	4,568,108	79.80
(14.0)	(2,807,953)	2,210,486	26.00
-	(895,060)	1,144,940	-
-	(644,000)	171,049	-
(3.0)	(258,067)	549,696	4.00
(2.0)	(225,640)	500,000	-
(4.0)	(370,313)	321,687	2.00
(1.0)	(145,724)	-	-
-	-	-	-
(446.1)	(49,595,842)	51,632,462	94.30
(15.0)	(13,174,552)	13,835,614	-
-	-	26,767,829	-
(10.0)	(4,618,570)	5,186,521	-
(124.0)	(9,389,834)	-	-
(73.1)	(3,904,630)	4,267,419	77.90
-	-	5,390,124	-
(37.8)	(2,743,694)	2,606,056	6.40
(76.8)	(5,410,299)	-	-
(42.0)	(2,862,825)	1,990,643	-
-	(1,000,000)	1,354,449	-
-	-	2,576,679	4.00
(28.0)	(2,239,164)	-	-
(16.0)	(892,198)	849,879	5.00
-	(4,554,597)	(3,078,486)	-
-	(787,947)	618,118	-
(7.0)	(712,985)	403,176	1.00
(13.4)	(959,975)	-	-
(1.0)	(190,940)	289,677	-
(2.0)	(246,004)	8,767	-
-	-	(5,049,220)	-
-	-	(4,696,440)	-
-	4,092,372	(1,688,343)	-
-	(129,488)	1,919,795	14.00
-	(129,488)	1,919,795	14.00
(533.5)	(60,455,782)	78,871,739	220.10

Budget Reductions Scenario 2				
FTE Reductions	Total Cost Reductions Including Benefits	Balance of Priorities Funded	Positions Funded	Budget Reductions Restored from Option
(87.4)	(10,730,453)	25,319,481	111.80	-
-	(2,050,018)	15,853,516	-	-
(63.4)	(3,333,677)	4,568,108	79.80	-
(14.0)	(2,807,953)	2,210,486	26.00	-
-	(895,060)	1,144,940	-	-
-	(644,000)	171,049	-	-
(3.0)	(258,067)	549,696	4.00	-
(2.0)	(225,640)	500,000	-	-
(4.0)	(370,313)	321,687	2.00	-
(1.0)	(145,724)	-	-	-
-	-	-	-	-
(268.2)	(35,095,841)	66,132,463	272.20	14,500,000
(7.0)	(9,824,105)	17,186,061	8.00	3,350,447
-	-	26,767,829	-	-
(5.0)	(4,012,507)	5,792,584	5.00	606,063
(90.0)	(6,471,622)	2,918,212	34.00	2,918,212
-	-	8,172,049	151.00	3,904,630
-	-	5,390,124	-	-
(14.0)	(702,229)	4,647,521	30.20	2,041,465
(76.8)	(5,410,299)	-	-	-
(18.0)	(1,605,915)	3,247,553	24.00	1,256,910
-	(1,000,000)	1,354,449	-	-
-	-	2,576,679	4.00	-
(28.0)	(2,239,164)	-	-	-
(11.0)	(643,989)	1,098,088	10.00	248,209
-	(3,550,059)	(2,073,948)	-	1,004,538
-	(787,947)	618,118	-	-
(3.0)	(301,825)	814,336	5.00	411,160
(13.4)	(959,975)	-	-	-
(1.0)	(190,940)	289,677	-	-
(1.0)	(123,002)	131,769	1.00	123,002
-	-	(5,049,220)	-	-
-	-	(4,696,440)	-	-
-	2,727,736	(3,052,979)	-	(1,364,636)
-	(129,488)	1,919,795	14.00	-
-	(129,488)	1,919,795	14.00	-
(355.6)	(45,955,782)	93,371,739	398.00	14,500,000

Attachment 2- Summary of HCPSS General Fund Budget with Scenarios

General Fund	Board Requested	Budget Balancing	Budget Balancing	CE Proposed
	FY 2023	Scenario 1	Scenario 2	
SOURCES OF FUNDING				
Howard County Funding- Required MOE	\$ 611,187,988	\$ 628,300,000	\$ 628,300,000	\$ 628,300,000
Howard County-Above MOE*	146,215,704	40,000,000	40,000,000	40,000,000
Request of Additional County Funds		-	14,500,000	
Subtotal Recurring				668,300,000
County-Nonrecurring	-	17,897,910	17,897,910	17,897,910
Subtotal Howard County	\$ 757,403,692	\$ 686,197,910	\$ 700,697,910	\$ 686,197,910
*Note- Above MOE in year 1 becomes part of required MOE in year 2.				
State Funding				
Subtotal State Funds	\$ 321,081,146	\$ 321,081,146	\$ 321,081,146	\$ 321,081,146
Federal Funding				
Total Federal Funds	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000
Other Funding				
Total Other Funds	\$ 6,481,065	\$ 6,481,065	\$ 6,481,065	\$ 6,481,065
Use of Fund Balance	11,597,220	11,597,220	11,597,220	11,597,220
Additional Use of Fund Bal		10,750,000	10,750,000	
Total Sources of Funds	\$ 1,096,973,123	\$ 1,036,517,341	\$ 1,051,017,341	\$ 1,025,767,341
USES OF FUNDING				
Categories				
Administration	\$ 16,152,496	\$ 16,152,496	\$ 16,152,496	\$ 15,327,983
Mid-Level Administration	70,050,871	70,050,871	70,050,871	70,078,233
Instruction	444,319,758	444,319,758	444,319,758	417,064,358
Special Education	162,234,834	162,234,834	162,234,834	153,198,396
Student Personnel Services	9,677,288	9,677,288	9,677,288	9,370,555
Student Health Services	12,705,436	12,705,436	12,705,436	13,094,717
Student Transportation	55,956,615	55,956,615	55,956,615	46,983,241
Operation of Plant	52,165,540	52,165,540	52,165,540	45,967,518
Maintenance of Plant	35,763,936	35,763,936	35,763,936	31,139,407
Fixed Charges	231,411,069	231,411,069	231,411,069	217,680,296
Community Services	5,343,658	5,343,658	5,343,658	4,785,454
Capital Outlay	1,191,622	1,191,622	1,191,622	1,077,184
BLUEPRINT BUDGET REDUCTIONS		(10,730,453)	(10,730,453)	
MAINTAINING SERVICE LEVEL BUDGET REDUCTIONS		(49,595,842)	(35,095,841)	
HS#13 BUDGET REDUCTIONS		(129,488)	(129,488)	
Total Uses of Funds	\$ 1,096,973,123	\$ 1,036,517,341	\$ 1,051,017,341	\$ 1,025,767,341
Sources Over(Under) Uses	\$ -	\$ -	\$ -	\$ -
Fund Balance Summary (Budgetary Basis)				
Beginning Fund Balance	\$ 23,362,065	\$ 33,902,330	\$ 33,902,330	\$ 33,902,330
Revenues Over Expenditures (Use) or Gain of Fund Balance	(11,597,220)	(22,347,220)	(22,347,220)	(11,597,220)
Ending Fund Balance	\$ 11,764,845	\$ 11,555,110	\$ 11,555,110	\$ 22,305,110
Ending Fund Balance Summary (Budgetary Basis)				
Unassigned	10,712,483	10,502,748	10,502,748	21,252,748
Total Ending Fund Balance	\$ 11,764,845	\$ 11,555,110	\$ 11,555,110	\$ 22,305,110
Unassigned Fund Balance as % of Total Uses	0.98%	1.01%	1.00%	2.07%