



HARFORD COUNTY, MARYLAND  
Office of the County Auditor

**Harford County Public Schools Proposed Budget  
for Fiscal Year 2020**

**FISCAL IMPACT NOTE**

**April, 2019**

Prepared by the Office of the County Auditor  
Harford County, Maryland  
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**Summary of Board of Education Proposed FY2020 Budget**

	2016 FY Actual	2017 FY Actual	2018 FY Actual	2019 FY Budget	2020 FY Budget	Change	Percent Change
<b>Revenue</b>							
Unrestricted Funding Sources							
Harford County	\$ 228,208,971	\$ 233,534,504	\$ 238,715,645	\$ 245,815,645	\$ 260,815,645	\$ 15,000,000	6.1%
State of Maryland	193,999,044	196,211,473	198,526,233	201,190,128	201,842,809	652,681	0.3%
Federal Government	423,240	391,653	408,977	420,000	420,000	-	0.0%
Other	5,146,148	5,273,223	5,114,027	3,338,960	4,599,960	1,261,000	37.8%
Fund Balance	4,750,000	5,523,746	5,466,052	10,902,716	5,000,000	(5,902,716)	-54.1%
<b>Total - Unrestricted Revenue</b>	<b>\$ 432,527,403</b>	<b>\$ 440,934,599</b>	<b>\$ 448,230,934</b>	<b>\$ 461,667,449</b>	<b>\$ 472,678,414</b>	<b>\$ 11,010,965</b>	<b>2.4%</b>
Restricted Funding Sources							
State of Maryland	\$ 10,344,837	\$ 8,898,221	\$ 9,039,371	\$ 9,628,402	\$ 9,744,122	\$ 115,720	1.2%
Federal Government	18,957,778	21,040,936	20,537,747	19,898,719	19,702,848	(195,871)	-1.0%
Other	236,828	412,325	273,866	136,900	153,000	16,100	11.8%
<b>Total - Restricted Revenue</b>	<b>\$ 29,539,443</b>	<b>\$ 30,351,482</b>	<b>\$ 29,850,984</b>	<b>\$ 29,664,021</b>	<b>\$ 29,599,970</b>	<b>\$ (64,051)</b>	<b>-0.2%</b>
<b>TOTAL - REVENUE</b>	<b>\$ 462,066,846</b>	<b>\$ 471,286,081</b>	<b>\$ 478,081,918</b>	<b>\$ 491,331,470</b>	<b>\$ 502,278,384</b>	<b>\$ 10,946,914</b>	<b>2.2%</b>

**Expenditures**

Fund: Unrestricted							
Board of Education	\$ 629,338	\$ 567,527	\$ 653,713	\$ 629,101	\$ 640,439	\$ 11,338	1.8%
Business Services	34,881,745	34,198,345	35,263,576	37,250,102	37,862,145	612,043	1.6%
Curriculum and Instruction	5,749,068	5,931,839	5,945,228	5,724,804	5,426,526	(298,278)	-5.2%
Education Services	172,216,622	175,800,623	177,060,166	184,148,881	183,315,790	(833,091)	-0.5%
Executive Administration	1,531,827	1,470,449	1,580,936	1,521,762	1,549,957	28,195	1.9%
Extra Curricular Activities	3,537,524	3,688,230	3,779,357	3,796,597	3,796,097	(500)	0.0%
Human Resources	76,852,968	79,482,391	84,036,069	88,541,736	96,814,400	8,272,664	9.3%
Operations and Maintenance	64,844,761	67,483,859	66,561,799	68,933,312	70,481,538	1,548,226	2.2%
Safety and Security	899,420	877,487	901,954	900,623	903,593	2,970	0.3%
Special Education	40,604,926	40,621,052	42,445,974	44,683,083	45,927,877	1,244,794	2.8%
Student Services	14,111,726	14,450,598	15,465,629	16,234,682	16,862,284	627,602	3.9%
Office of Technology & Information	9,035,322	8,582,224	9,168,192	9,302,766	9,097,768	(204,998)	-2.2%
<b>Total - Unrestricted Fund</b>	<b>\$ 424,895,247</b>	<b>\$ 433,154,624</b>	<b>\$ 442,862,593</b>	<b>\$ 461,667,449</b>	<b>\$ 472,678,414</b>	<b>\$ 11,010,965</b>	<b>2.4%</b>
Fund: Restricted							
Restricted Fund	\$ 29,539,443	\$ 30,351,483	\$ 29,850,985	\$ 29,664,021	\$ 29,599,970	\$ (64,051)	-0.2%
Fund: Current Expense							
Food Service	\$ 16,761,751	\$ 17,264,329	\$ 17,365,191	\$ 17,619,542	\$ 17,926,020	\$ 306,478	1.7%
Debt Service	31,014,737	30,921,157	31,825,571	34,075,503	33,128,847	(946,656)	-2.8%
Capital	33,285,201	23,576,768	30,518,578	48,205,472	74,441,123	26,235,651	54.4%
Pension	26,626,689	26,083,972	26,381,727	26,381,727	26,381,727	-	0.0%
<b>TOTAL - EXPENDITURES</b>	<b>\$ 562,123,068</b>	<b>\$ 561,352,333</b>	<b>\$ 578,804,645</b>	<b>\$ 617,613,714</b>	<b>\$ 654,156,101</b>	<b>\$ 36,542,387</b>	<b>5.9%</b>

**Statistics**

Current Expense Fund Employees	4,953.2	4,893.9	4,861.0	4,791.8	4,676.3	(115.5)	-2.3%
Enrollment	37,451	37,426	37,780	37,826	37,826	-	0.0%

## EXECUTIVE SUMMARY

The Board of Education has proposed a fiscal year 2020 Unrestricted Fund budget that is approximately \$11.0 million (2.4%) larger than the approved fiscal year (FY) 2019 budget.

### Key Notes

- Total proposed budget is \$654,156,101 (+5.9%)
- County funding requested is \$260,815,645
- The request is \$15.0 million (+6.1%) higher than the prior approved budget
- Proposed Capital Projects are \$74,441,123 (+54.4%)
- County Executive’s proposed funding is \$256,465,645 (+4.3%)
- Funded Capital Projects total \$42,861,600

Operating a school system is a labor-intensive endeavor. Employees and their related costs drive the largest changes to the school system’s budget. The Harford County Public Schools’ (HCPS) Superintendent and Board of Education have proposed a significant reduction in the number of employees. Those reductions are partially offset by providing wage adjustments to remaining employees. Management does not expect the position reductions to significantly impact the employment of current employees. More specifically:

- 115 Position reductions saves \$10.3 million
- Proposed wage increases total \$8.6 million
- 120 Employees have accepted incentives to leave HCPS at the end of the current year

Also impacted by the number of employees is Insurance Costs. The proposed budget includes significant increases for this within Human Resources’ budget. Points of note:

- Healthcare cost increases of 14% will cost \$13.6 million
- Position reductions will save approximately \$1.57 million in healthcare costs
- The Board hopes to save \$5.0 million by negotiating healthcare plan changes

This fiscal impact note is not intended to substitute for reading HCPS’ budget book. Rather, it is intended to complement and summarize that information and provide recommendations for consideration in the budget approval process. Our focus is on the financial costs of operating the school system; we defer to the school officials for their expertise and experience with best practices for educating students.

**We strongly encourage all readers of this analysis to also read the proposed budget in full**, giving particular attention to chapters 1 through 4, as they describe HCPS’ background, objectives, results and approach to developing the budget.

**Additional Information**

Report Version: 02  
 (April, 2019)  
 Based on County Executive’s Proposed Budget

**SUMMARY OF RECOMMENDATIONS**

- School and County officials should consider including technology refresh costs in the operating budget, rather than in the capital budget. (See page 10) *Remains from prior year.*

This prior recommendation is being addressed and will be closed.

- We strongly recommend that the schools prepare a zero-based budget to demonstrate the specific programs, services and staffing levels that are needed.

**HCPS MANAGEMENT RESPONSE**

HCPS agrees with the recommendation and welcome any conversation related to the funding source for technology.

**BACKGROUND**

Each year, Harford County Public Schools’ (HCPS) Superintendent prepares a proposed budget that is amended and approved by the Board of Education prior to submitting a funding request to the County Executive. HCPS additionally prepares a detailed budget book that includes many details to support the annual funding request. The schools implemented a citizen budget advisory board to provide input on the budget beginning with the FY2019 budget. The group meets regularly and provides feedback to school officials throughout the year.

The County Executive recommends the amount of County funding in the annual appropriation ordinance. The County Council may amend the County Executive’s proposed school funding upward, but may not reduce the proposed amount. It is relevant to note that the County Executive’s budget includes the projected revenue, which cannot be changed by the County Council. The requirement for a balanced budget means that increases to the school budget must be funded by reductions in other County departments by the County Council or an increase in revenue by the County Executive. Further, the annual budget appropriation authorizes current expense funding to the Board of Education in the State mandated reporting categories, but does not provide any further restrictions on how the money may be spent.

The budget prepared by HCPS is an incremental budget – it provides explanations for changes from the prior year budget and assumes that the prior year budget amounts are acceptable. The schools continue to make adjustments between categories to better reflect how funds will be used.

This analysis addresses the budget’s summary sections: Revenue, Expenditures, and Positions. Where appropriate, recommendations for further evaluation have been noted. Information used in this analysis was provided by HCPS Budget personnel. In preparing this document, we inquired of members of HCPS management and the Board of Education to clarify our understanding of the subject and to initiate conversations about overall fiscal efficiency.

## SUMMARY OF REVENUES AND EXPENDITURES

### Revenues

The Board of Education (BoE) primarily receives funding from the County, State and Federal Governments. The County funding request is \$15.0 million (6.1%) higher than the prior year. The County Executive’s proposed budget includes \$10.65 million of the requested increase. County funds are only used to support Unrestricted Fund expenditures. Expenditures are discussed later in this analysis.

State funding is projected to increase slightly (0.3%) from the FY2019 budget. State funding is adjusted based upon comparative wealth and other factors between counties. The School’s budget for state funding is based upon early projections. Increases or decreases may become apparent as the State’s budget process progresses through April.

The Education Blueprint for Maryland’s Future was adopted after the Board of Education’s budget proposal, providing approximately \$8.66 million in new State funding. That legislation provides for the following:

- \$3.46 million for teacher salary increases
- \$746,000 Concentration of Poverty grants (\$248,833 allocated to each of 3 eligible schools)
- \$2.89 million for Special Education
- \$630,000 for Instructional support of Struggling Learners in grades K-3
- \$83,000 for a Mental Health Services Coordinator
- \$842,000 for 4-year old Pre-K programs

‘Other revenue’ includes a wide variety of sources. Of note, the proposed FY2020 budget projects revenue increases totaling \$120,000

**Expenditures**

from Interest Income. Medicare rebates were reduced for FY2019 but are projected to increase by \$1.25 million in FY2020; Other Rebates will be reduced by \$95,000.

The remaining revenue categories including Gate Receipts, Other Interscholastic Receipts and Other Revenues net to revenue reductions of \$14,000.

Overall, the proposed Unrestricted budget spending has increased by \$11.0 million or 2.4%. The proposed changes in expenditures are summarized on page 41 of the Board of Education Proposed Budget. Proposed reductions are on page 42.

The largest increase in the budget is related to Health Insurance. An estimated increase of 14%, when offset by related adjustments, will cost an additional \$12.0 million. Officials hope to save an another \$5.0 million through negotiated benefits changes that have not yet been finalized. Salary and Wage adjustments providing employees 1 step increase and a 1% cost of living adjustment will cost approximately \$8.6 million. \$1.4 million will be needed for Transportation costs; the prior year budget had to be increased by \$900,000 for projected shortfalls.

Other increases, not mentioned above, total approximately \$2.1 million in addition to the increases noted above. The most of those significant changes are related to various insurance costs, OPEB Retiree drug subsidies and pension increases.

The above increases are partially offset by net staffing reductions of 109 positions, saving \$7.7 million. The position changes are described in more detail later in this report.

In prior years, we noted several detailed line items are routinely budgeted significantly higher or lower than the actual spending, based on prior years' results. We reviewed each expense category, by department, in the proposed Unrestricted budget. Our analysis found some accounts groups that were over-budgeted or under-budgeted, but the net variance for those accounts was immaterial – less than 0.04% of the budget.

While there are minor refinements that could be made to some line items in the budget, the most significant impact on the schools' expenditures is the number of employees required to provide adequate programming.

## POSITIONS

The proposed budget includes 4,939.8 positions, a decrease of 115.5 full-time equivalent employees. Projected savings from these cuts is approximately \$10.3 million.

Positions have been cut from Elementary Administration (16.0), Secondary Administration (10.0), Central Office (23.0) and Instruction (83.0).

The Superintendent’s proposed budget included more reductions, but 70 positions were restored in the Board of Education’s proposal. The Superintendent’s proposal reduced and reallocated positions to schools using teacher-student ratios weighted based on each school’s Free and Reduced Meal eligible population. That proposal maintained 15 positions to be reallocated based on changes in enrollment. The Board of Education specifically allocated two of those positions to Harford Technical High School in its proposal. It is not clear how the remaining 70 restored positions would be allocated among the schools. The Board will be presented with options in April and May.

The Superintendent has advised that most of the changes can be addressed by reassigning staff. He expects that the reduction in positions should result in few employees losing their jobs.

## PENSION AND OTHER POST-EMPLOYMENT BENEFITS

	2017	2018	2019	2020		Percent
	FY Actual	FY Actual	FY Budget	FY Budget	Change	Change
Fund: Pension						
State of Maryland Contribution	\$ 27,773,812	\$ 26,381,727	\$ 26,381,727	\$ 26,381,727	\$ -	0.0%
HCPS Funds to Teachers' Plan	8,084,494	8,764,606	9,122,334	9,296,799	174,465	1.9%
HCPS Funds to Employees' Plan	2,088,496	2,220,853	2,153,757	2,251,359	97,602	4.5%
Restricted Fund Contribution	2,020,486	2,131,955	2,100,000	2,100,000	-	0.0%
<b>Total</b>	<b>\$39,967,288</b>	<b>\$39,499,141</b>	<b>\$39,757,818</b>	<b>\$40,029,885</b>	<b>\$ 272,067</b>	<b>0.7%</b>
Fund: OPEB						
Annual OPEB Cost	67,040,000	76,297,000	82,942,469	90,166,758	7,224,289	8.7%
Contributions to Plan Payments	(24,018,000)	(25,248,000)	(25,580,000)	(25,360,000)	220,000	0.0%
<b>Increase in OPEB Liability</b>	<b>43,022,000</b>	<b>51,049,000</b>	<b>57,362,469</b>	<b>64,806,758</b>	<b>7,444,289</b>	<b>13.0%</b>

HCPS employees participate in pension plans administered by Maryland’s State Retirement Agency. The FY2020 local costs (employer’s share) will increase by approximately \$270,000 (0.7%).



When employees retire, a portion of their health and dental costs are paid by HCPS. Those costs are paid by the Other Post-Employment Benefits (OPEB) trust which is funded to help pay for future costs. The Actuarially Determined Contribution (formerly Annual Required Contribution [ARC]) is the actuarial estimate of how much the employer should contribute today to fund future costs plus an amount that is needed to catch up for earlier unfunded years. In prior years, HCPS has not funded the entire amount. This contributes to a growing future liability. The 06/30/2018 net OPEB Liability was approximately \$1.39 billion, while the plan's assets were approximately 3.54% of that amount. The proposed budget does not include OPEB projections or expected funding for the upcoming year. *The table above reflects our estimate of contributions to the plan.*

School officials have indicated in prior years that they have considered Post-Employment Health Plans as an alternative to the current OPEB plan but noted that the future obligation would not be reduced without a reduction in employee benefits. We agree with their assessment; the current practice of large benefits and partial funding is not sustainable. School officials are aware of the need to structure benefit plans to balance full-funding and maintaining an attractive benefit package for employees.

### CAPITAL IMPROVEMENT PROGRAM

Description	Project Number	FY2020 Total Budget Reque	CE Proposal	Prior Appropriation
Fund: General				
Special Ed Facility Improvements	B114120	842,000		-
Havre de Grace HS Replacement	B144111	13,486,645	13,487,000	63,987,000
Technology Refresh/ Infrastructure	New	13,028,878	500,000	-
Joppatowne High School Limited Renovation	New	1,500,000		-
Emergency Systems Communications	B004112	479,000		1,137,000
Replacement Buses	B024118	4,536,000	1,296,000	10,403,197
Security Measures	B144134	421,600	421,600	640,000
Aberdeen Middle School Roof Replacements	New	1,557,000	1,557,000	-
Roye Williams HVAC Systemic Renovation	New	11,720,000	11,720,000	-
Stormwater Mgmt, Erosion, Sediment Control	B064128	865,000		200,000
Environmental Compliance	B974118	880,000		1,247,619
Outdoor Track Reconditioning	B114119	282,000		-
Hickory Elementary School Roof Replacement	New	1,794,000	1,794,000	-
Major HVAC Repairs	B064145	353,000		7,581,682
Athletic Field Repair and Restoration	B034113	660,000	100,000	477,000
Replacement (Maint.) Vehicles & Equip.	B034115	1,500,000		3,538,396
ADA Improvements	B064143	400,000		800,000
Septic Facility Code Upgrades	B114126	75,000		-
George D. Lisby Elementary School HVAC	New	9,250,000	9,250,000	-
North Bend Elementary School Central Plant an	New	2,031,000	2,031,000	-
Domestic Water and Backflow Prevention	B054111	1,135,000		450,000
Technology Education Lab Refresh	B164112	300,000		250,000
Paving - Overlay and Maintenance	B064127	1,020,000		450,000
Swimming Pool Renovations	B104120	705,000	705,000	100,000
Building Envelope Improvements	B144107	200,000		200,000
Music Equipment Refresh	B144113	75,000		50,000
Music Technology Lab	B144114	200,000		150,000
Equipment and Furniture Replacement	B004113	100,000		954,950
Textbook/Supplemental Refresh	B064129	1,000,000		6,210,000
Band Uniform Refresh	New	150,000		-
Playground Equipment	B144117	560,000		350,000
Folding Partition Replacement	New	100,000		-
Paving - New Parking Areas	B064126	400,000		300,000
CEO Annex and Training Areas HVAC	B164109	1,860,000		-
Floor Covering Replacement	B114117	200,000		-
Career & Tech Education Equipment Refresh	B064130	275,000		500,000
Bleacher Replacement	B094130	100,000		300,000
Energy Conservation Measures	B114116	250,000		-
Locker Replacement	B094131	150,000		210,000
<b>Total</b>		<b>\$ 74,441,123</b>	<b>\$ 42,861,600</b>	<b>\$ 100,486,844</b>

**Recommended Actions**

- School and County officials should consider including technology refresh costs in the operating budget, rather than in the capital budget.

Prioritization of capital projects should be recommended by subject matter experts and approved by those in leadership. As a result, budget analysis of the capital projects is limited to general descriptions, current and prior appropriations and background information. The overall appropriateness of the Capital Improvement Program, including projected future funding, has not been assessed.

The Board of Education requests funding for capital projects it deems priorities through its Capital Improvement Plan. The proposed Capital Improvement Plan for FY2020 consists of 39 projects totaling \$74.4 million. The local government funding request is \$62.2 million. The County Executive’s proposed funding totals \$43.4 million.

Technology Refresh has \$13.0 million budgeted. \$500,000 has been funded by the County Executive. As in prior years, this project remains a key concern for school officials because it addresses infrastructure needs as well as classroom teaching needs. The purchases funded by the Technology Refresh project are in the capital budget, but are more accurately classified as operating expenses because they represent the ongoing cost of maintaining the hardware and software used in classrooms and by administrators. We continue to recommend School and County officials consider including technology refresh costs in the operating budget, rather than in the capital budget.

Other large projects include the Havre de Grace Middle/ High School replacement project (\$13.5 million) and Roye Williams Elementary School HVAC (\$11.7 million) George D Lisby Elementary HVAC (\$9.25 million) and Replacement Buses (\$4.5 million). Of these, only Replacement Buses was funded less than the request, at \$1.3 million.

Many other capital projects are generic (Emergency Communications, Paving, Textbook/Supplemental Refresh, Playground Equipment, etc.) and address needs that exist in multiple locations. Of the other requests, Athletic Field Repair and Restoration was funded for \$100,000.

School officials have noted that limited funding for the general/maintenance projects over several years has required the delay of some maintenance. Over time, these delays may lead to the failure of building systems and equipment that will require costly replacements.