



HARFORD COUNTY, MARYLAND

Office of the County Auditor

Harford County Public Schools Proposed Budget for Fiscal Year 2017

FISCAL IMPACT NOTE

April, 2016

Prepared by the Office of the County Auditor
Harford County, Maryland
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TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
SUMMARY OF RECOMMENDATIONS	4
HCPS MANAGEMENT RESPONSE.....	5
SUMMARY OF REVENUES (6), EXPENDITURES (7), POSITIONS (8) AND PRIORITIES (9).....	7
BOARD OF EDUCATION (10).....	20
BUSINESS SERVICES (11).....	11
CURRICULUM AND INSTRUCTION (12).....	12
EDUCATION SERVICES (13).....	20
EXECUTIVE ADMINISTRATION (14).....	21
EXTRA-CURRICULAR ACTIVITIES (15).....	21
HUMAN RESOURCES (16).....	13
OPERATIONS AND MAINTENANCE (17).....	14
SAFETY AND SECURITY (18).....	22
SPECIAL EDUCATION (19).....	15
STUDENT SERVICES (20).....	22
OFFICE OF TECHNOLOGY AND INFORMATION SERVICES (21).....	15
RESTRICTED (22).....	23
FOOD SERVICE (23).....	16
DEBT SERVICE (24).....	23
PENSION (26) AND OTHER POST-EMPLOYMENT BENEFITS (27).....	17
CAPITAL IMPROVEMENT PROGRAM (25).....	18

Summary of Board of Education Proposed FY2017 Budget

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Revenue					
Unrestricted Funding Sources					
Harford County	\$ 223,667,302	\$ 228,208,971	\$ 255,845,115	\$ 27,636,144	12.1%
State of Maryland	193,925,226	194,335,044	193,709,753	(625,291)	-0.3%
Federal Government	433,573	390,000	390,000	-	0.0%
Other	5,653,808	3,529,035	3,129,722	(399,313)	-11.3%
Fund Balance	5,533,875	4,750,000	4,750,000	-	0.0%
Total - Unrestricted Revenue	\$ 429,213,784	\$ 431,213,050	\$ 457,824,590	\$ 26,611,540	6.2%
Restricted Funding Sources					
State of Maryland	\$ 11,753,863	\$ 10,533,799	\$ 10,652,961	\$ 119,162	1.1%
Federal Government	19,346,190	19,292,870	18,463,179	(829,691)	-4.3%
Other	302,406	154,513	144,813	(9,700)	-6.3%
Total - Restricted Revenue	\$ 31,402,459	\$ 29,981,182	\$ 29,260,953	\$ (720,229)	-2.4%
TOTAL - REVENUE	\$ 460,616,243	\$ 461,194,232	\$ 487,085,543	\$ 25,891,311	5.6%

Expenditures

Fund: Unrestricted					
Board of Education	\$ 573,815	\$ 683,384	\$ 696,488	\$ 13,104	1.9%
Business Services	33,649,740	35,691,502	40,026,991	4,335,489	12.1%
Curriculum and Instruction	5,792,305	6,038,773	6,291,175	252,402	4.2%
Education Services	169,110,438	172,620,067	182,426,546	9,806,479	5.7%
Executive Administration	1,576,558	1,559,931	1,605,852	45,921	2.9%
Extra Curricular Activities	3,527,178	3,706,003	3,819,505	113,502	3.1%
Human Resources	76,191,370	76,058,845	81,246,044	5,187,199	6.8%
Operations and Maintenance	66,032,780	68,542,319	71,938,681	3,396,362	5.0%
Safety and Security	900,263	893,956	913,764	19,808	2.2%
Special Education	40,616,607	41,202,897	43,333,593	2,130,696	5.2%
Student Services	13,945,994	14,401,090	15,238,165	837,075	5.8%
Office of Technology & Information	8,828,650	9,814,283	10,287,786	473,503	4.8%
Total - Unrestricted Fund	\$ 420,745,698	\$ 431,213,050	\$ 457,824,590	\$ 26,611,540	6.2%
Fund: Restricted					
Restricted Fund	\$ 31,402,459	\$ 29,981,182	\$ 29,260,953	\$ (720,229)	-2.4%
Fund: Current Expense					
Food Service	\$ 15,964,573	\$ 16,429,157	\$ 16,886,709	\$ 457,552	2.8%
Debt Service	30,695,880	31,709,489	30,002,348	(1,707,141)	-5.4%
Capital	33,669,871	28,133,000	30,893,000	2,760,000	9.8%
Pension	29,257,412	26,626,689	26,626,689	-	0.0%
TOTAL - EXPENDITURES	\$ 561,735,893	\$ 564,092,567	\$ 591,494,289	\$ 27,401,722	4.9%

Statistics

Current Expense Fund Employees	4,992.8	4,967.6	4,949.1	(18.5)	-0.4%
Enrollment	37,537	37,451	37,389	(62.0)	-0.2%

EXECUTIVE SUMMARY

Key Notes

- Total proposed budget is \$591,494,289 (+4.9%)
- County funding requested is \$255,845,115 (+12.1%)
- Proposed wage adjustments totaling \$16.1 million
- Other funding sources have decreased.
- Proposed Capital Projects are \$30,002,348 (+9.8%)
- County Executive's proposed budget includes \$3.5 million for instructional salaries

The Board of Education has proposed a fiscal year 2017 budget that is approximately \$27.4 million (4.9%) larger than the approved FY2016 budget. As in the prior year, the largest increases are in the areas of Capital Projects and Business Services (for Pension funding). There are also significant increases for Insurance Costs (in Human Resources) and Transportation. The County funding requested has increased by \$27.6 million or 12.1%. The County Executive's proposed budget is less than requested, but at \$233,534,504, represents an increase of \$5.3 million (2.3%) from the prior year.

Broadly, 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. In part, the State's requirement for funding at the Maintenance of Effort level encourages this approach to budgeting. However, after a number of years, the base being used may not remain relevant because of changes in student needs, State and Federal mandates and the cost of doing business. We strongly recommend that the schools prepare a zero-based budget to demonstrate the specific programs, services and staffing levels that are needed. *This recommendation remains from the prior year.*

We have noted in the past, and continue to emphasize, that the Schools have many administrative functions that are similar to those of the County government. To our knowledge, there has never been a study of combining some of these functions. School officials advised us that they would be willing to discuss sharing resources to gain efficiency. Key areas that should be considered are Procurement, Human Resources, Payroll, Accounts Payable, Fleet Management and Maintenance. Additionally, some supporting functions such as Facilities Maintenance and Janitorial Services might be appropriate for consolidation. Per discussion with school officials, preliminary discussions with County officials have begun related to combining functions for a few processes.

To summarize the budget process, 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 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 first section of this analysis addresses the budget's summary sections: Revenue, Expenditures, Positions and Priorities. Detailed analysis of each of the other budget sections follows. Where appropriate, recommendations for further evaluation have been noted in the summaries. Throughout this analysis, section headers include numbers in parentheses; they refer to the section numbers in the Board of Education's Proposed FY2017 Budget. Information used in this analysis was provided by the HCPS Budget and Finance 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.

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 fiscal improvement. Our focus was 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 9, as they describe the HCPS background, objectives, results and approach to developing the budget.

SUMMARY OF RECOMMENDATIONS

- We strongly recommend that the schools prepare a zero-based budget to demonstrate the specific programs, services and staffing levels that are needed. (See page 3) *Remains from prior year.*
- We recommend funding for technology be prioritized in FY2017 to facilitate compliance with State PARCC testing mandates that become effective in 2018. (See page 12)
- We recommend HCPS and the County Administration evaluate the feasibility and potential cost savings of consolidating some administrative functions. (See pages 12 and 13) *Remains from prior year.*
- School and County officials should consider including technology refresh costs in the operating budget, rather than in the capital budget. (See page 19) *Remains from prior year.*

Additional Information

Report Version: **02**
(04/26/2016)
Based on Board of Education Proposed Budget and County Bill 16-015, as introduced

See departmental summaries for more detail.

A number of departments' changes are primarily related to wage adjustments. Those departmental summaries are at the end of this analysis, so that other changes receive more focus in this analysis.

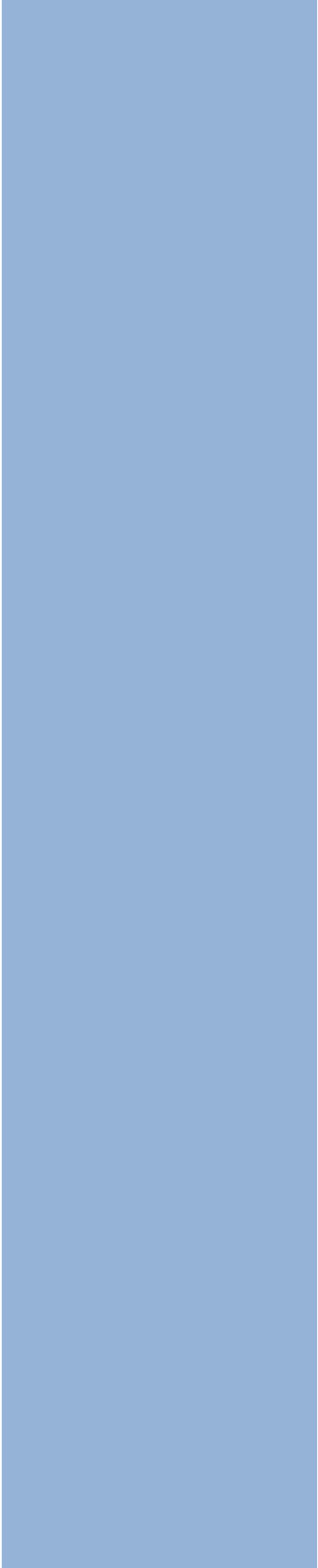
HCPS MANAGEMENT RESPONSE

Thank you for providing Harford County Public Schools with a draft copy of the "Harford County Public Schools Proposed Budget for Fiscal Year 2017 – Fiscal Impact Note" prepared by the Office of the County Auditor. We acknowledge, with gratitude, the in-depth analysis and recommendations provided throughout the report. We appreciated the opportunity to meet personally with Ms. Brooks and her staff to discuss in detail the Board of Education's Proposed Budget for Fiscal Year 2017.

In response to the recommendation that *"the schools prepare a zero based budget to demonstrate the specific programs, services and staffing levels that are needed"*, we would like to emphasize that we utilize a comprehensive priority based approach to budgeting not an incremental approach. We reallocate resources, including staff and funds, based on current and projected programmatic needs. Each year as part of the annual budget process, all aspects of the HCPS budget are examined in detail by budget managers to ensure optimal utilization of all resources. Annually, employee staffing is assessed, evaluated and assigned based on an in-depth analysis of enrollment changes, student and school needs, program requirements and assignments throughout the school system. Based on the limited growth in new resources since fiscal 2008, the need to reassess and repurpose all resources has been essential for the school system to function at an optimal level. The justification for previously budgeted funds is provided in the Accomplishments portion of each tabbed section of the budget book.

In response to the recommendation that *"HCPS and the County Administration evaluate the feasibility and potential cost savings of consolidating some administration functions"*, discussions and meetings have started and we welcome the opportunity to meet and work with the County Executive and members of his administration to continue to explore options.

We fully support your recommendations that *"funding for technology be*



prioritized in FY2017 to facilitate compliance with State PARCC testing mandates that become effective in 2018” and “School and County officials should consider including technology refresh costs in the operating budget, rather than the capital budget”. The investment in technology is not a one-time expense; it is an ongoing, recurring and expensive undertaking. However, the 21st Century classroom demands and deserves the newest and best technology we can provide. We are open to discussions to include technology funding in subsequent years operating submissions.

SUMMARY OF REVENUES (6), EXPENDITURES (7), POSITIONS (8) AND PRIORITIES (9)

Revenues

The Board of Education (BoE) primarily receives funding from the County, State and Federal Governments. The County funding request is approximately \$27.6million (12.1%) higher than the prior year. The County Executive's proposed budget includes \$233,534,504 in funding to the Board of Education. County funds are only used to support Unrestricted Fund expenditures. Expenditures are discussed later in this analysis.

State funding is projected to decrease slightly from the FY2016 budget. Harford County increased its appropriation in subsequent years to make up for the pension expense shift. State funding is also adjusted based upon comparative wealth factors between counties. The wealth factor is only one component of determining State funding. The School's budget for state funding is based upon early projections; we were advised in March that the schools expect \$2.4 million more State funding than was included in the BOE proposed budget. Increases or decreases may become apparent as the State's budget process progresses through April.

'Other revenue' includes a wide variety of sources. The net reduction in 'Other Revenue' is approximately 11.1%. Of note, the proposed FY2017 budget projects that Transportation Receipts from field trips will decrease by \$160,000 (40.9%) based on actual results. Energy Rebates are expected to decrease by \$119,200 (39.2%). Out of County LEA revenue is expected to decrease by \$50,000 (14.2%).

The Board of Education expects to use \$4.75 million of its fund balance (rainy day fund) to pay for operating expenses.

Expenditures

Overall, the proposed Unrestricted budget spending has increased by \$26.6 million or 6.2%.

As mentioned in the Executive Summary, 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. We strongly recommend that the schools prepare a zero-based budget to demonstrate the specific programs, services and staffing levels that are needed. A zero-based budget would provide justification for all requests, not just the changes from the prior year. This budgeting approach would require officials to identify the actual costs of each program and service provided. At a minimum, the zero-based budget should identify how many employees are needed and how they will be deployed because salaries and benefits are the largest costs

of educating students. At this time, it is not clear that a baseline calculation of required school-based staff has been performed. However, the priorities section of the proposed budget includes a number of teaching positions that officials feel should be filled.

The proposed budget summarizes the changes in expenditures as “Wages and Benefits”, “Base Budget Adjustments”, “Net Cost Savings Measures” and “Cost of Doing Business”.

Wages and Benefits are, by far, the majority of the increase, adding approximately \$16.1 million to the budget. Of that amount, approximately \$1.1 million represents the increased payroll taxes resulting from higher wages. Because of ongoing labor negotiations, schools officials have not advised how many step increases or COLA percentages are included in the proposed total wages. However, they have advised that the budget proposal includes the amounts that were directed by the Board of Education.

HCPS underwent a compensation study which included 69 of HCPS’ job classifications. The study was completed in 2014 using the latest available data. The results showed that HCPS teacher salaries were between 2.8% and 11.5% behind their peers in other jurisdictions. For all other HCPS employee groups the average was 10.2% below the market average salaries.

Base Budget Adjustments net to \$0. Items included are generally personnel transfers between departments and reallocation of expenses.

The proposed increase in Cost of Doing Business (CODB) is detailed on page 86 of the Board of Education Proposed Budget and total approximately \$10.4 million. The most significant changes are related to Transportation, Teacher Pension and Insurance costs. Within the Operations budget, transportation expenses have increased by \$1.7 million for bus contracts. Other significant increases include hardware and software maintenance and increases for various insurances.

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. For FY2012 through FY2015, we found that while the net annual variance was 1.0% below budget, the average difference at the State Category level showed actual spending averaged 4.0% lower than the budget. This implies that some small categories have significant variances that should be considered, but also that some large budget lines may have small percentage variances that represent large dollar amounts. The table below summarizes the schools’ Unrestricted Fund results for the last two completed fiscal years. The ‘Application of Variance’ column, totaling negative \$4.4 million,

represents the amount that would be unspent in FY2016 based on the prior years' results. (A positive number in this table means that the schools spent more than budgeted.)

Unrestricted Funds	2017	Average PY	Application of	2015		2014	
	FY Budget	Variance	Variance	Actual-Budget		Actual-Budget	
Administrative Services	\$ 10,991,838	-3.3%	\$ (366,998)	\$ (271,578)	-2.6%	\$ (474,691)	-4.5%
Mid-Level Administration	26,214,508	-1.3%	(341,911)	(224,529)	-0.9%	(217,562)	-0.9%
Instructional Salaries	167,299,460	-0.8%	(1,360,520)	(2,629,498)	-1.7%	(1,583,472)	-1.0%
Textbooks & Classroom Supplies	7,205,964	-2.9%	(212,436)	(192,779)	-2.6%	(257,572)	-3.7%
Other Instructional Costs	2,814,107	-0.2%	(6,115)	(53,096)	-1.8%	(19,316)	-0.6%
Special Education	43,418,391	-0.5%	(203,709)	(406,872)	-1.0%	(1,063)	0.0%
Student Services	1,764,445	-1.4%	(24,277)	(36,980)	-2.2%	(24,830)	-1.5%
Health Services	3,500,978	-3.3%	(116,227)	(148,305)	-4.2%	(140,564)	-4.2%
Student Transportation	32,459,313	-0.9%	(283,439)	180,512	0.6%	(1,017,100)	-3.2%
Operation of Plant	31,017,388	-2.1%	(661,894)	(1,522,206)	-5.1%	165,373	0.6%
Maintenance of Plant	13,802,463	-0.8%	(114,855)	(221,977)	-1.8%	(135,445)	-1.1%
Fixed Charges	116,213,171	-0.5%	(524,445)	(2,378,677)	-2.2%	(1,416,862)	-1.4%
Community Services	547,520	-18.7%	(102,329)	(86,000)	-16.2%	(74,248)	-14.0%
Capital Outlay	575,044	-19.1%	(109,905)	(40,171)	-9.5%	(29,332)	-58.7%
TOTAL	\$ 457,824,590		\$ (4,429,059)	\$ (8,032,156)	-1.9%	\$ (5,226,684)	-1.2%

We reviewed each line item in the proposed Unrestricted budget and identified a number of items that were over- or under-budgeted when compared to the FY2014 and FY2015 results. The differences were largely explained by proposed wage adjustments, pension and employee benefit changes. We considered that expenditures may be reflected in categories other than the ones budgeted, so we analyzed the budget data at the level of category and department. The table below summarizes the categories, by department, with significant variances in the Unrestricted Fund that were not fully explained by the above reasons. The total of those amounts suggests potential areas for reduction or adjustment in the FY2017 budget and is summarized below. (Positive figures in the table below represent categories that could be adjusted downward.).

	Total of Significant Variances	Total Sum of FY17 Budget	% of Total Budget
10 Board of Education	\$ 74,901	\$ 696,488	0.11%
Contracted Services	50,835	163,290	31.1%
Equipment	8,065	8,565	94.2%
Other Charges	16,001	97,457	16.4%
11 Business Services	207,645	40,026,991	
Other Charges	207,645	38,038,408	0.5%

	Total of Significant Variances	Total Sum of FY17 Budget	% of Total Budget
12 Curriculum and Instruction	(37,557)	6,291,175	
Contracted Services	(49,370)	284,449	(17.4%)
Equipment	(601)	34,109	(1.8%)
Other Charges	7,245	131,130	5.5%
Supplies	5,169	111,433	4.6%
13 Education Services	71,758	182,426,546	
Contracted Services	225,397	1,010,258	22.3%
Equipment	(55,762)	929,644	(6.0%)
Other Charges	(60,758)	194,296	(31.3%)
Supplies	(37,119)	5,219,898	(0.7%)
14 Executive Administration	20,814	1,605,852	
Contracted Services	20,814	62,719	33.2%
15 Extra-curricular Activities	82,761	3,819,505	
Contracted Services	20,758	809,442	2.6%
Supplies	62,003	610,202	10.2%
16 Human Resources	1,688,779	81,246,044	
Equipment	1,919	12,482	15.4%
Other Charges	1,686,860	78,826,551	2.1%
17 Operations and Maintenance	(135,850)	71,938,681	
Contracted Services	234,616	27,531,903	0.9%
Equipment	(48,800)	308,336	(15.8%)
Other Charges	52,689	15,185,266	0.3%
Supplies	(374,355)	4,288,656	(8.7%)
19 Special Education	98,598	43,333,593	
Equipment	12,487	98,578	12.7%
Supplies	86,111	311,187	27.7%
20 Student Services	(122,523)	15,238,165	
Equipment	(76,062)	29,043	(261.9%)
Other Charges	4,633	34,589	13.4%
Supplies	(51,094)	176,028	(29.0%)
21 OTIS	574,282	10,287,786	
Contracted Services	107,500	2,623,535	4.1%
Equipment	13,297	301,675	4.4%
Other Charges	(140,788)	1,256,936	(11.2%)
Supplies	594,273	2,113,447	28.1%
Grand Total	\$ 2,523,608	\$ 456,910,826	0.6%

Positions

The proposed budget includes 4,949.1 positions, a net decrease of 3.0 full-time equivalent employees. The overall decrease is due to the net reduction of 5 Special Education positions and the addition of 2 Custodians. Within the Special Education Program a number of Inclusion Helper positions have been changed to other roles.

Priorities

HCPS does not budget for employee turnover in the proposed budget. Officials have indicated that turnover generally results in a savings of approximately \$2 million per year. After revenue numbers are confirmed, employee turnover will be included as a reconciling item in the Approved version of the budget.

Given hypothetical unlimited resources, the expertise of school officials would likely generate a long list of programs and services that would help further the Board’s mission. In our discussions with school officials, it was clear that they understand the fiscal restraints of the County and other funding sources. They expressed an intention to request funding for only the most essential functions. To that end, the proposed budget includes a Priority List section which details many high priority items that the Board of Education felt were important, but that could not be included in the proposed budget at the requested funding level. The Priority List items require total funding of \$7.5 million.

The most significant items on the list are new positions district-wide:

- 15.0 FTE - FTE Special Education Teachers and Para-educators
- 49.0 FTE - Regular Program Teachers
- 7.0 FTE - School based Support (Assistant Principals, Guidance Counselors, and Custodians)
- 10.5 FTE - Elementary Math Coaches
- 10.0 FTE – Teacher Mentors
- 6.0 FTE – ESOL Teachers
- 2.5 FTE – Curriculum and Instruction Support Staff

Other priorities included instructional and operational furniture and equipment as well as professional development to support classroom technology. Library Materials and Technology Programs are also priorities.

BUSINESS SERVICES (11)

	2015	2016	2017		Percent
	FY Actual	FY Budget	FY Budget	Change	Change
Board of Education	\$ 273,377	\$ 271,661	\$ 275,267	\$ 3,606	1.3%
Internal Audit	157,796	185,725	191,223	5,498	3.0%
Legal Services	221,495	225,998	229,998	4,000	1.8%
Total	\$ 652,668	\$ 683,384	\$ 696,488	\$ 13,104	1.9%

Key Changes

- Increased Pension Contributions
- Wage and Benefits Adjustments

The Business Services budget captures costs related to Finance, Budget, Payroll, Risk Management, and Purchasing. These functions are similar to functions that the County also performs. In the prior year, we recommended the County and Schools consider if there would be a benefit to consolidation of some common functions. This matter has been discussed, but has not been studied.

Recommended Actions

- We recommend HCPS and the County Administration evaluate the feasibility and potential cost savings of consolidating some administrative functions.

The FY2017 budget includes an increase in the County’s required pension contribution of \$2.7 million. The proposed budget also includes \$1.1 million for payroll taxes related to district-wide wage adjustments. Insurance costs are paid from the Business Services budget and Workers Compensation insurance is projected to increase by 13.9% Actual figures received by HCPS will result in only a 3.5% increase; reducing the proposed budget by approximately \$208,000

CURRICULUM AND INSTRUCTION (12)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Curr. Dev. and Implement.	\$ 3,948,686	\$ 4,143,500	\$ 4,331,399	\$ 187,899	4.5%
Office of Accountability	849,460	788,897	808,243	19,346	2.5%
Professional Development	994,159	1,106,376	1,151,533	45,157	4.1%
Total	\$ 5,792,305	\$ 6,038,773	\$ 6,291,175	\$ 252,402	4.2%

Key Changes

- Wage Adjustments

The Division of Curriculum and Instruction provides support to educators by developing curriculum and connecting educators with opportunities for Professional Development. The Division leads the organizational effort in “development, implementation, evaluation and coordination of curriculum and instruction” within HCPS.

Recommended Actions

- We recommend funding for technology be prioritized in FY2017 to facilitate compliance with State PARCC testing mandates that become effective in 2018.

The proposed increase in Curriculum and Instruction is related to wage adjustments.

The prior year’s proposed budget included funding for the purchase of PARCC (Common Core) assessments at a cost of \$3.00 per assessment. The Board determined that purchasing the assessments was more cost effective than developing them internally. While the cost was eventually removed from the approved budget, school officials noted that the State will cover the costs of these exams in FY2017, but future year

funding is unknown and will depend upon State requirements. These costs have not been included in the proposed budget. Based upon our discussions with school officials, FY2018 funding is not expected because the State expects all districts to be capable of online testing by that time. Currently, Harford County is the only Maryland jurisdiction that continues to use paper-based PARCC exams. Funding to purchase appropriate devices needs to be made available over the next two years. We recommend County officials review the potential impact of not meeting this mandate.

HUMAN RESOURCES (16)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Human Resources	\$ 76,191,370	\$ 76,058,845	\$ 81,246,044	\$ 5,187,199	6.8%

Key Changes

- Insurance rate increases
- Wage Adjustments

Recommended Actions

- We recommend HCPS and the County Administration evaluate the feasibility and potential cost savings of consolidating some administrative functions.

Human Resources is responsible for hiring employees, benefits enrollment, teacher quality initiatives, contract management and other employee compliance matters.

The costs of employee benefits are captured in the HR department’s budget. HCPS participates in the same Health Care Consortium as Harford County Government. The budget reflects a projected 7.5% increase in health insurance costs. The HCPS FY2015 adjusted expenditures from the Consortium were \$77,273,826; that amount was \$1,384,210 more than the premiums paid. A portion of the excess balance was withdrawn in 2015. In prior years, the excess balance has been paid into HCPS’ Other Post Employment Benefit (OPEB) trust.

Human Resources is a function that HCPS and the County Government have in common. There may be some benefit to these groups working together to improve efficiency. This approach has been discussed, but has not been studied.

OPERATIONS AND MAINTENANCE (17)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Facilities Management	\$ 21,300,382	\$ 21,853,136	\$ 23,078,195	\$ 1,225,059	5.6%
Planning and Construction	788,744	873,680	900,772	27,092	3.1%
Transportation	30,336,181	30,452,527	32,593,006	2,140,479	7.0%
Utility Resource Management	13,607,473	15,362,976	15,366,708	3,732	0.0%
Total	\$ 66,032,780	\$ 68,542,319	\$ 71,938,681	\$ 3,396,362	5.0%

Key Changes

- Wage Adjustments
- Two New Custodian Positions
- Bus Contract Changes

Operations and Maintenance is comprised of several highly-visible, non-instructional areas required to operate the school system – Facility Maintenance, Janitorial Services, Construction and Transportation.

As in other departments, wage adjustments account for a significant portion of the proposed budget increase. The Facilities budget includes a projected 5% increase in Property Insurance rates (\$70,309). There are two new custodial positions requested for Youth’s Benefit Elementary School due to the new larger school building.

Transportation is a significant expense for the school district. Increases in the Transportation budget are primarily related to proposed bus contract adjustments (\$1.7 million). For FY2016, there were a total of 496 school buses; of these, 381 were contractor owned. Based upon our discussions with school officials, the proposed bus contract adjustment of \$1.7 million was an estimate. The actual increase will be \$1.9 million. A portion of the increase is due to changes in the vendor contracts to better represent the operational model of a transportation company. School officials expect long-term savings as a result of these changes.

Additionally, there are 57 buses that are 12 years old or older. HCPS may request a service-life extension from the State, subject to inspection, for those vehicles up to 3 times. Extensions are not allowed after the 15th year. Given the current fleet, some vehicles will require replacement in FY2018. An aging bus fleet inherently requires increased maintenance costs.

SPECIAL EDUCATION (19)					
	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Special Education	\$ 40,616,607	\$ 41,202,897	\$ 43,333,593	\$ 2,130,696	5.2%
Key Changes	<p>Special Education provides staffing and services to the students in Harford County with special needs. These students may require smaller class sizes, specialized equipment and/or placement in non-public schools. As a result, the cost per pupil is significantly higher than the school system as a whole. Wage adjustments and staffing changes account for the majority of the increase in the budget. There is 1 new teacher and 1 new Para-educator position in the proposed budget.</p>				
<ul style="list-style-type: none"> • Wage Adjustments • 2 New Positions 					

OFFICE OF TECHNOLOGY AND INFORMATION SERVICES (21)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Office of Technology & Information Services	\$ 8,828,650	\$ 9,814,283	\$ 10,287,786	\$ 473,503	4.8%
Key Changes	<p>The Office of Information Technology Services provides support to the schools through network and application maintenance. The department also serves as a centralized point for coordination of computer equipment purchases and support.</p> <p>The proposed budget includes various annual contract increases for hardware and software maintenance, primarily related to the Bring Your Own Technology pilot program. The proposed budget increase for Office of Technology and Information Services also reflects wage adjustments.</p>				
<ul style="list-style-type: none"> • Hardware/Software Maintenance Contract Increases • Wage Adjustments 					

FOOD SERVICE (23)

Fund: Food Service	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Revenue					
Student Payments	\$ 7,103,038	\$ 7,115,734	\$ 7,129,965	\$ 14,231	0.2%
State	414,516	447,020	457,290	10,270	2.3%
Federal	8,508,212	8,866,403	9,175,591	309,188	3.5%
Other	153,356	-	123,863	123,863	N/A
Total	\$ 16,179,122	\$ 16,429,157	\$ 16,886,709	\$ 457,552	2.8%
Expenses					
Salaries	\$ 5,245,747	\$ 5,684,982	\$ 5,841,655	156,673	2.8%
Contracted Services	346,275	335,761	341,464	5,703	1.7%
Supplies	7,985,845	7,651,968	7,799,022	147,054	1.9%
Other Charges	2,118,918	2,581,446	2,724,460	143,014	5.5%
Equipment	267,788	175,000	180,108	5,108	2.9%
Total	\$ 15,964,573	\$ 16,429,157	\$ 16,886,709	\$ 457,552	2.8%
Net Income (Loss)	\$ 214,549	\$ -	\$ -		
Personnel	263.5	263.5	263.5	-	0.0%

Key Changes

- Food Cost Increases
- Health Insurance Increases
- Wage Adjustments

Food Service is accounted for in a dedicated fund. The projected revenue for FY2017 is higher than the prior year. State and Federal reimbursements for free and reduced price lunches and snacks are projected slightly higher than the prior year.

For expenses, wage adjustments account for the changes in ‘Salaries’. ‘Supplies’ is comprised primarily of food, paper products and cleaning supplies. There are numerous adjustments between the line items in this category. ‘Other Charges’ have primarily increased related to Health Insurance costs.

PENSION (26) AND OTHER POST-EMPLOYMENT BENEFITS (27)

	2015	2016	2017		Percent
Fund: Pension	FY Actual	FY Budget	FY Budget	Change	Change
State of Maryland Contribution	\$ 29,257,412	\$ 29,257,412	\$ 26,626,689	\$ (2,630,723)	-9.0%
HCPS Funds to Teachers' Plan	7,361,347	8,803,344	11,544,367	2,741,023	31.1%
HCPS Funds to Employees' Plan	3,124,095	3,479,103	3,479,103	-	0.0%
Restricted Fund Contribution	1,605,468	1,506,052	1,700,000	193,948	12.9%
Total	\$ 41,348,322	\$ 43,045,911	\$ 43,350,159	\$ 304,248	0.7%
Fund: OPEB					
Annual OPEB Cost	56,570,000	59,695,000	59,695,000	-	0.0%
Contributions to Plan Payments	(3,500,000)	(3,500,000)	-	3,500,000	-100.0%
Expected Plan Payments	(21,068,000)	(22,439,000)	(22,964,337)	(525,337)	2.3%
Increase in OPEB Liability	32,002,000	33,756,000	36,730,663	2,974,663	8.8%

Key Changes

- Increase in pension contribution

HCPS employees participate in pension plans administered by Maryland’s State Retirement Agency. In the past, the State has contributed the employer’s share to the pension. Beginning in FY2013, the schools were required to absorb a portion of the employer’s contribution. FY2016 was the first year that the County is responsible for 100% of the pension’s normal cost. The FY2017 County costs will be \$2.93 million (28.5%) higher than the prior year.

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 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. The annual OPEB cost is the ARC after being adjusted for interest and amortization of the net obligation. In prior years, HCPS has not funded its entire ARC. This contributes to a growing future liability. The 7/1/2014 Accrued Actuarial Liability was approximately \$673 million, while the plan’s assets were less than 5% of that amount. The proposed budget does not include OPEB projections or expected funding for the upcoming year. In prior years the school system has used their healthcare consortium rebates to fund OPEB contributions; they are planning to continue that practice in FY2017. *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, but noted that the future obligation would not be reduced without a reduction in employee benefits. We

agree with their assessment, but note that the current practice of large benefits and partial funding is not sustainable. School officials will need to consider how to best structure benefit plans to balance full-funding and maintaining an attractive benefit package for employees.

CAPITAL IMPROVEMENT PROGRAM (25)

Description	Project Number	Local Request	FY2016 Total		CE Proposal	Total Project Cost
			Budget Request			
Fund: General						
Youth's Benefit ES Replacement	B074127	\$ 2,419,000	\$ 2,419,000	\$ 2,419,000	\$ 2,419,000	\$ 48,976,866
Darlington ES HVAC	B154106	400,000	1,918,000	1,329,948		3,453,000
Replacement Buses	B024118	2,044,000	2,044,000	1,000,000		21,894,994
Technology Refresh	B044118	3,000,000	3,000,000	-		99,786,371
Riverside Elementary School HVAC	New	4,716,000	8,780,000	8,780,000		8,780,000
Joppatowne HS Roof Replacement	New	1,115,000	2,400,000	2,400,000		2,400,000
WS James ES Open Space Enclosure	New	691,000	1,400,000	1,400,000		1,400,000
Old Post Road ES Open Space Enclosure	New	1,261,000	2,417,000	2,417,000		2,417,000
Fire Alarm & ER Communications	B004112	300,000	300,000	-		3,565,000
Security Measures	B144134	225,000	225,000	-		3,185,000
Stormwater Mgmt, Erosion, Sediment Control	B064128	485,000	485,000	-		3,110,000
Replacement (Maint.) Vehicles & Equip.	B034115	1,250,000	1,250,000	-		14,135,396
Major HVAC Repairs	B064145	770,000	770,000	-		13,441,226
Environmental Compliance	B974118	880,000	880,000	-		4,541,263
ADA Improvements	B064143	100,000	100,000	-		1,200,000
Textbook/Supplemental Refresh	B064129	1,000,000	1,000,000	-		9,931,644
Athletic Field Repair and Restoration	B034113	100,000	100,000	-		1,087,000
Septic Facility Code Upgrades	B114126	75,000	75,000	-		5,360,592
Domestic Water and Backflow Prevention	B054111	200,000	200,000	-		1,450,000
Folding Partition Replacement	New	100,000	100,000	-		600,000
Paving - Overlay and Maintenance	B064127	700,000	700,000	-		4,406,370
Career & Tech Education Equipment Refresh	B064130	100,000	100,000	-		1,500,000
Floor Covering Replacement	B114117	150,000	150,000	-		850,000
Outdoor Track Reconditioning	B114119	80,000	80,000	-		530,000

Total \$ 22,161,000 \$ 30,893,000 \$ 19,745,948 \$ 258,001,722

Key Changes

- Various project priorities

Recommended Actions

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.

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

The Capital Improvement Plan includes the proposed projects that the Harford County Board of Education will undertake over the next six years that will add to, support or improve the physical infrastructure, capital assets or productive capacity of educational services. In accordance with §123-12.1 of the County Code, the Capital Program, which includes projects for the Board of Education, must be adopted by the County Council annually. The Board of Education requests funding for capital projects it deems priorities through its Capital Improvement Plan. The proposed Capital Improvement Plan for FY2017 consists of 24 projects totaling \$30,893,000. The local government funding request is \$22,161,000.

Many projects are generic (Building Envelope Improvements, Fire Alarm and ER Communications, Paving, Replacement Buses, Textbook/Supplemental Refresh, Playground Equipment, etc.) and address needs that exist in multiple locations. These projects have been planned to address 1 or 2 schools each year. Buses are replaced every 12 years as required by the State Department of Education and other vehicles are replaced, as needed, using the American Public Works Association standards. Some of the largest projects are for major building system enhancements such as HVAC improvements, roof replacements and Open Space enclosures.

Technology Refresh has \$3 million budgeted. Funds will be used for desktop/laptop refreshes and Core Equipment in the Data Center. The budget notes that the entire need for this project is \$17.3 million; however, only a portion of that amount has been requested. The full request would include \$12.6 million to buy 18,000 devices for student use, which would result in a 2:1 student-per-device ratio. Per discussion with school officials, there is a dire need for an investment in technology due to aging hardware and the necessity to meet the PARCC requirement. We were also advised that by July 2016, nearly 10,000 instructional computers (68% of the total instructional inventory) will be over 6 years old. Additionally with newly connected devices through the Bring Your Own Technology program, schools are approaching network bandwidth capacity. The fully funded Technology Refresh project would also address Auditorium A/V systems and phone systems.

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.

[The County Executive's proposed budget is less than requested, at \\$19,745,948. It includes funding for 7 of the 24 requested projects, as reflected in the table above.](#)

A number of departments have no significant changes other than wage adjustments. The proposed budget comparisons and a brief description of each of those departments are below.

BOARD OF EDUCATION (10)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Board of Education	\$ 273,377	\$ 271,661	\$ 275,267	\$ 3,606	1.3%
Internal Audit	157,796	185,725	191,223	5,498	3.0%
Legal Services	221,495	225,998	229,998	4,000	1.8%
Total	\$ 652,668	\$ 683,384	\$ 696,488	\$ 13,104	1.9%

The Board of Education departmental budget includes salaries for Board members, their clerical staff, Legal Counsel and Internal Audit. The proposed increase in Board of Education is related to wage adjustments.

EDUCATION SERVICES (13)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Career and Technology Programs	\$ 7,314,988	\$ 7,648,992	\$ 8,053,756	\$ 404,764	5.3%
Gifted and Talented Program	1,319,863	1,418,260	1,497,770	79,510	5.6%
Intervention Services	963,518	743,038	773,702	30,664	4.1%
Magnet and Signature Programs	1,507,865	1,607,047	1,647,166	40,119	2.5%
Office of Elem/Mid/High Schools	566,789	594,170	635,770	41,600	7.0%
Other Special Programs	2,742,992	2,835,169	2,963,653	128,484	4.5%
Regular Programs	148,613,155	151,635,555	160,358,614	8,723,059	5.8%
School Library Media Program	5,937,603	5,959,692	6,317,971	358,279	6.0%
Summer School	143,665	178,144	178,144	-	0.0%
Total	\$ 169,110,438	\$ 172,620,067	\$ 182,426,546	\$ 9,806,479	5.7%

The Education Services budget reflects many costs most commonly associated with educating students - teachers and principals, books, supplies, magnet and career programs.

The proposed increase in Education Services is related to wage

adjustments. There are no new positions requested in the proposed budget for Education Services.

EXECUTIVE ADMINISTRATION (14)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Communications	\$ 370,631	\$ 391,942	\$ 399,469	\$ 7,527	1.9%
Equity and Cultural Proficiency	285,795	226,409	235,979	9,570	4.2%
Executive Admin. Office	920,132	941,580	970,404	28,824	3.1%
Total	\$ 1,576,558	\$ 1,559,931	\$ 1,605,852	\$ 45,921	2.9%

Executive Administration includes the Superintendent and Assistant Superintendent, Chief of Administration, Communications and a number of clerical staff. Adjustments to the budget are primarily related to proposed wage increases.

EXTRA-CURRICULAR ACTIVITIES (15)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Interscholastic Athletics	\$ 2,752,504	\$ 2,858,290	\$ 2,936,666	\$ 78,376	2.7%
Student Activities	774,674	847,713	882,839	35,126	4.1%
Total	\$ 3,527,178	\$ 3,706,003	\$ 3,819,505	\$ 113,502	3.1%

There are salaries, but no full-time equivalent positions associated with Extra-Curricular Activities. Extra compensation is paid to existing staff who are involved in these activities. Accordingly, the proposed budget includes wage adjustments and increased fees for contracted officials.

SAFETY AND SECURITY (18)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Safety and Security	\$ 900,263	\$ 893,956	\$ 913,764	\$ 19,808	2.2%
Key Changes	<p>The Safety and Security budget provides funding for two employees. Personnel costs are only about 15.1% of the department’s budget. The majority of the department’s funding is for Contracted Services- security guards for interscholastic athletics and special events hosted by HCPS and contracted alarm monitoring and camera services.</p> <p>Security guard services are provided by Harford County Sheriff’s Office, Town of Bel Air Police, Aberdeen Police and Havre de Grace Police. The budget also funds materials and installation of security systems and cameras. The department works to create and revise critical incident plans for the schools.</p>				
<ul style="list-style-type: none"> • Wage Adjustments • Maintenance Contract Adjustments 					

STUDENT SERVICES (20)

	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
Health Svcs.	\$ 3,355,916	\$ 3,287,076	\$ 3,500,978	\$ 213,902	6.5%
Psychological Svcs.	2,182,625	2,336,210	2,487,778	151,568	6.5%
Pupil Personnel Svcs.	1,644,312	1,692,980	1,764,445	71,465	4.2%
School Counseling	6,763,141	7,084,824	7,484,964	400,140	5.6%
Total	\$ 13,945,994	\$ 14,401,090	\$ 15,238,165	\$ 837,075	5.8%
	<p>Student Services seeks to remove the obstacles that may impede student achievement. The budget includes funding for school nurses, psychologists and counselors, as well as administrative staff who help coordinate support services. The proposed increase in Student Services is related to wage adjustments. There are no new positions requested in the proposed budget for Student Services.</p>				

RESTRICTED (22)					
Restricted Fund	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
	\$ 31,402,459	\$ 29,981,182	\$ 29,260,953	\$ (720,229)	-2.4%
<p>The Restricted Fund is used to account for Grant revenue and other funding that must be spent in a prescribed manner. Federal grants have decreased, but State grants have increased. Overall, the budget has remained stable. A total of 228.3 positions are funded by restricted funds.</p>					

DEBT SERVICE (24)					
	2015 FY Actual	2016 FY Budget	2017 FY Budget	Change	Percent Change
HCPS Leases					
Energy Leases - Prin.	\$ 786,555	\$ 1,624,093	\$ 1,658,585	\$ 34,492	2.1%
Energy Leases - Int.	342,656	323,478	288,986	(34,492)	-10.7%
Administration Bldg -Prin.	371,258	508,418	525,043	16,625	N/A
Administration Bldg -Int.	327,544	315,404	298,779	(16,625)	-5.3%
Total	\$ 1,828,013	\$ 2,771,393	\$ 2,771,393	\$ -	0.0%
County Debt Service					
Principal	\$ 18,551,614	\$ 19,732,161	\$ 19,282,867	\$ (449,294)	-2.3%
Interest	12,144,266	11,977,328	10,719,481	(1,257,847)	-10.5%
Total	\$ 30,695,880	\$ 31,709,489	\$ 30,002,348	\$(1,707,141)	-5.4%
<p>Harford County Public Schools has entered into leases for its Administration Building and Energy Efficiency Equipment. The lease for the Administration Building was refunded in 2012 and approved by the County Council via resolution 11-12. The payments are included in the Business Services section of the budget.</p> <p>Energy equipment leases were approved by the County Council via resolutions 12-12 and 34-12. The related payments are included in the Utility Resource Management section of the Operations and Maintenance budget.</p> <p>HCPS may not issue long term debt. Instead, long term debt is issued by the County government. Projected County debt service for school projects is \$30.0 million.</p>					